SURTECO SE

we create.
we innovate.

2017

Annual Report
Future
Strategy

SURTECO WORLDWIDE

AMERICA

Agawam, US ○
Brampton, CA ○
Chihuahua, MX ●
East Longmeadow, US ○
Greensboro, US ○●
Myrtle Beach, US ○
São José dos Pinhais, BR ○
Tultitlán, MX ●

EUROPE

Angers, FR ●
Ashbourne, UK ○
Burnley, UK ●
Gislaved, SE ○
Greenhithe, UK ●
Istanbul, TR ●
Madrid, ES ●
Mindelo, PT ○
Moscow, RU ●
Prague, CZ ●
Sosnowiec, PL ●
Stourport-on-Severn, UK ○
Venice, IT ●

GERMANY

Bad Oeynhausen ●
Buttenwiesen-Pfaffenhofen ○
Bönen ○
Dunningen ○
Gladbeck ○
Halle (Saale) ○
Heroldstatt ○
Hüllhorst ○
Laichingen ○
Sassenberg ○
Weimar ○
Willich ○

ASIA / OCEANIA

Batam, ID ○
Brisbane, AU ●
Melbourne, AU ●
Perth, AU ●
Singapore, SG ●
Sydney, AU ○
Tokyo, JP ●

○ 23 production and sales locations
● 17 additional sales locations

AT A GLANCE
SURTECO SE

[€ million]	2016	2017	Δ %
Sales revenues	639.8	**689.7**	+8
Foreign sales ratio in %	73	**75**	
EBITDA	74.3	**83.1**	+12
EBITDA margin in %	11.6	**12.0**	
Depreciation and amortization	-33.4	**-38.4**	
EBIT	40.9	**44.7**	+9
EBIT margin in %	6.4	**6.5**	
Financial result	-5.9	**-11.2**	
EBT	35.0	**33.5**	-4
Consolidated net profit	23.9	**26.2**	+10
Earnings per share in €	1.54	**1.69**	+10
Number of shares	15,505,731	**15,505,731**	
Additions to fixed assets	34.5	**42.7**	
Balance sheet total	673.9	**842.6**	+25
Equity	346.6	**349.2**	+1
Equity ratio in %	51.4	**41.4**	-10.0 pts
Net financial debt at 31 December	135.6	**190.0**	+40
Gearing (level of debt) at 31 December in %	39	**54**	+15 pts
Average number of employees for the year	2,736	**3,091**	+13
Number of employees at 31 December	2,833	**3,295**	+16

PROFITABILITY INDICATORS IN %

Return on sales	5.5	**4.8**
Return on equity	7.2	**7.8**
Total return on total equity	6.5	**5.0**

SALES DISTRIBUTION
2017 IN %

SURTECO GROUP

Germany	25
Rest of Europe	46
America	20
Australia	5
Asia	3
Other	1

Edgebandings	35
Foils	20
Decorative printing	14
Impregnated products	12
Skirtings	7
Technical extrusions	5
Release papers	4
Other	3

STRATEGIC BUSINESS UNIT PAPER

Germany	25
Rest of Europe	50
America	22
Asia	2
Other	1

Decorative printing	25
Foils	30
Impregnated products	22
Edgebandings	13
Release papers	7
Other	3

STRATEGIC BUSINESS UNIT PLASTICS

Germany	26
Rest of Europe	41
America	19
Australia	9
Asia	4
Other	1

Edgebandings	59
Skirtings	14
Technical extrusions	11
Foils	7
Commercial products/Other	9

PERCENTAGE OF TOTAL SALES

SBU Paper 53 %	SBU Plastics 47 %

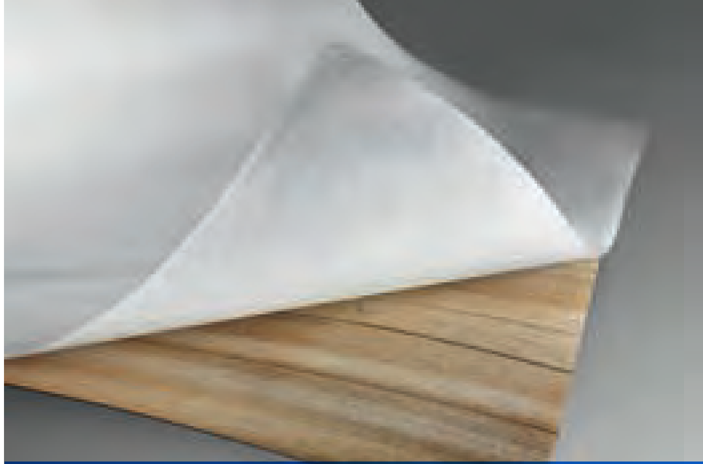
STRATEGY

The needs of our customers form the starting point for our work at SURTECO. This is because we are motivated by the movements within society itself. Social megatrends are our biggest innovation drivers. Population growth, urbanisation and individualization provide us with objectives for our future.

We take our cue from them with our new strategy SURTECO 2025+.

PRODUCT RANGE


SKIRTINGS

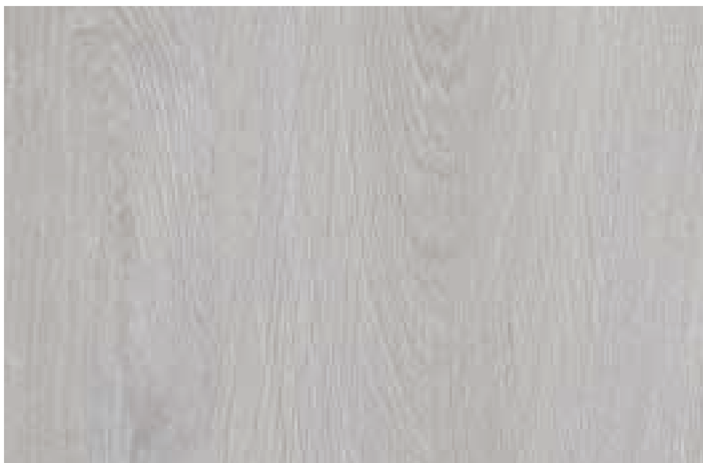

RELEASE PAPERS

FINISH FOILS based on paper and plastics


IMPREGNATED PRODUCTS



TECHNICAL EXTRUSIONS for industry


DECORATIVE PRINTING

ROLLER SHUTTER SYSTEMS


EDGEBANDINGS based on paper and plastics


CHANCES

Urbanization

Urbanization is continually increasing with the global growth in population. Since the urban person is more mobile and frequently moves home, the requirement for affordable living space is rising. SURTECO meets the need for a modern home environment and offers solutions for attractive interior fittings in all price segments.

INDIVIDUALIZATION

CUSTOMISATION

NEO-ECOLOGY

POPULATION GROWTH

ORIENTATION

URBANIZATION

STRATEGY

I n d i v i d u a l i z a t i o n

The need for original and personalized furniture and fittings is growing in a society with burgeoning individual freedoms. SURTECO is meeting this challenge with a virtually unlimited range of decor and product diversity. Metallic effects, DuoGloss with impressive Matt Gloss Interplay, refinements from super matt to gloss, decor-synchronous haptic effect or a warm impression are just a few examples of the competence spectrum from SURTECO.

INTEGRATION

MARKET POSITION

ONE-STOP-SHOP

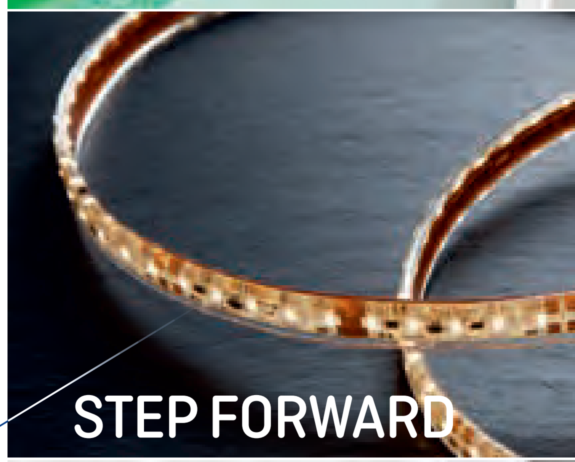
CONCENTRATION

INDIVIDUALIZATION

- DECORATIVE PRINTING
- FINISH FOILS
- RELEASEPAPER
- PLASTIC EDGEBANDINGS
- PAPER EDGEBANDINGS
- TECHNICAL EXTRUSIONS

T r a n s f o r m a t i o n

The quintessential aspect of the strategy SURTECO 2025+ is expressed in the transformation from product orientation to holistic approaches for the corresponding sectors. The service offering is primarily based on the individual needs. As a result, the three biggest companies in the Group that were previously independent are going to merge to form SURTECO GmbH.



CHANGE STEP FORWARD


TRANSFORMATION
FROM PRODUCT TO INDUSTRY
KITCHEN
LIVING
OFFICE
CARAVAN
DOORS
WOODBASED MATERIALS
FLOOR

DIGITALIZATION

I n n o v a t i o n

The consistent acceleration of new innovative products and solutions is an important constituent of the strategy SURTECO 2025+. The ideas for this have in turn been derived from the relevant megatrends. Innovation management carries out a lot of different investigations ranging from studies on the deployment of new materials to the use of completely new applications based on the technologies available.

DIGITALIZATION

INDIVIDUALIZATION

CUSTOMISATION


SOLUTION
INNOVATION

PRACTICALITY

INTERACTION

Service

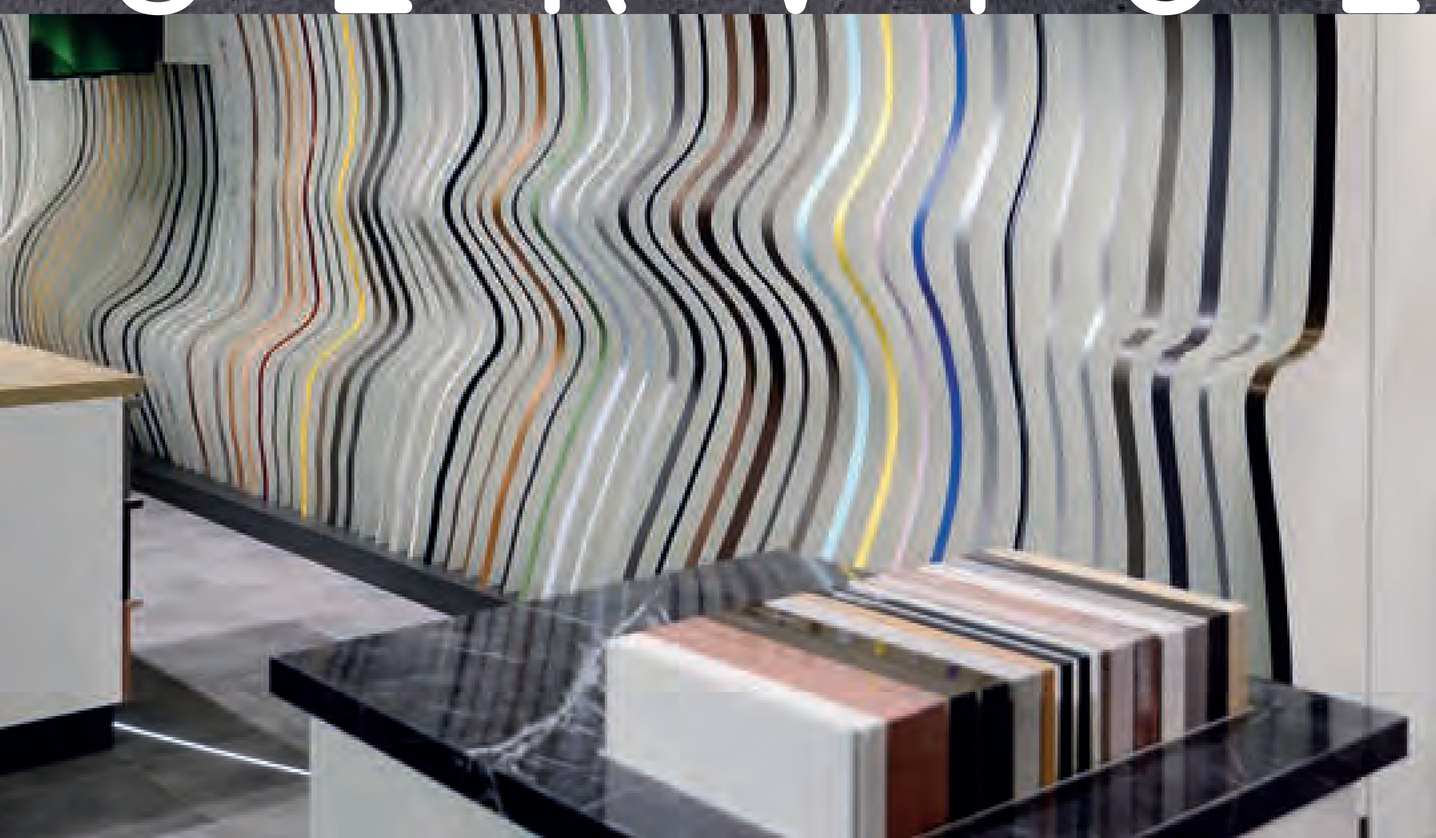
The new company SURTECO GmbH will take the concept of the One Stop Shop to a new level. Solutions tailored perfectly to customers' needs underpin the position of SURTECO as a full-service provider. A simple consultation process, expert advice and the most comprehensive range in the sector ensure optimum support for customers all over the world.

INSPIRATION

COMMUNICATION

INTEGRATION

SERVICE



DIALOGUE

Employees

The strategy SURTECO 2025+ is a growth and future concept which benefits all the people involved. The most important objective of these changes is to secure the long-term future of the locations and jobs. Motivated and committed employees are the most valuable asset of the SURTECO Group.

PROMOTION

QUALIFICATION

SAFETY

KNOW-HOW

EMPLOYEES

COMPANY MANAGEMENT

Executive Officers of SURTECO SE

SUPERVISORY BOARD

Dr.-Ing. Jürgen Großmann
Chairman
Shareholder of the GMH Group, Hamburg

Björn Ahrenkiel
Vice Chairman
Lawyer, Hürtgenwald

Dr. Markus Miele
Deputy Chairman
Industrial engineer, Gütersloh

Dr. Christoph Amberger
Independent businessman, Utting am Ammersee
since 29 June 2017

Markus Kloepfer
Managing Director of alpha logs GmbH, Essen
until 29 June 2017

Jens Krazeisen
Employee Representative
Chairman of the Works Council, Buttenwiesen-Pfaffenhofen

Christa Linnemann
Honorary Chairwoman
Businesswoman, Gütersloh

Wolfgang Moyses
Chairman of the Board of Management of SIMONA AG, Munich

Udo Sadlowski
Employee Representative
Chairman of the Works Council Essen

Dr.-Ing. Walter Schlebusch
Advisory Board of Giesecke & Devrient GmbH, Munich

Thomas Stockhausen
Employee Representative
Chairman of the Works Council, Sassenberg

BOARD OF MANAGEMENT

Dr.-Ing. Herbert Müller
Chairman
SBU Plastics
Engineer, Heiligenhaus

Andreas Riedl
Chief Financial Officer (CFO)
Graduate in Business Administration, Donauwörth
since 1 July 2017

Dr.-Ing. Gereon Schäfer
SBU Paper
Engineer, Kempen
until 31 March 2018

Executive Management of Group Companies

STRATEGIC BUSINESS UNIT PLASTICS

DÖLLKEN-KUNSTSTOFF-VERARBEITUNG GMBH Gladbeck	Frank Bruns Andreas Pötz Peter Schulte
SURTECO AUSTRALIA PTY LTD. Sydney	Maximilian Betzler
SURTECO ASIA (SURTECO PTE LTD. + PT DÖLLKEN BINTAN) Singapore + Batam, Indonesia	Hans Klingeborn
SURTECO FRANCE S.A.S. Beaucouzé	Gilbert Littner
SURTECO DEKOR A.Ş. Istanbul, Turkey	Emre Özbay
SURTECO IBERIA S.L. Madrid, Spain	Peter Schulte
DÖLLKEN-PROFILTECHNIK GMBH Dunningen	Hartwig Schwab
DÖLLKEN PROFILES GMBH Nohra	Hartwig Schwab Wolfgang Breuning
DÖLLKEN SP. Z O.O. Sosnowiec, Poland	Rafael Pospiech
DÖLLKEN CZ S.R.O. Prague, Czech Republic	Jan Vitu
SURTECO USA INC. Greensboro SURTECO CANADA LTD. Brampton/Ontario	Tim Valters
GISLAVED FOLIE AB Gislaved, Sweden	Per Gustafsson
SURTECO OOO Moscow, Russia	Rashid Ibragimov
NENPLAS LTD. Ashbourne, UK POLYPLAS LTD. Stourport-on-Severn, UK	Robert James Butcher Gary Horrobin Stephen Jones Richard Anthony Lumb
PROBOS PLÁSTICOS S.A. Mindelo, PT	Frank Bruns Antonio Cardona Joao Pedro Cunha Paulo Moutinho Joao Nogueíra

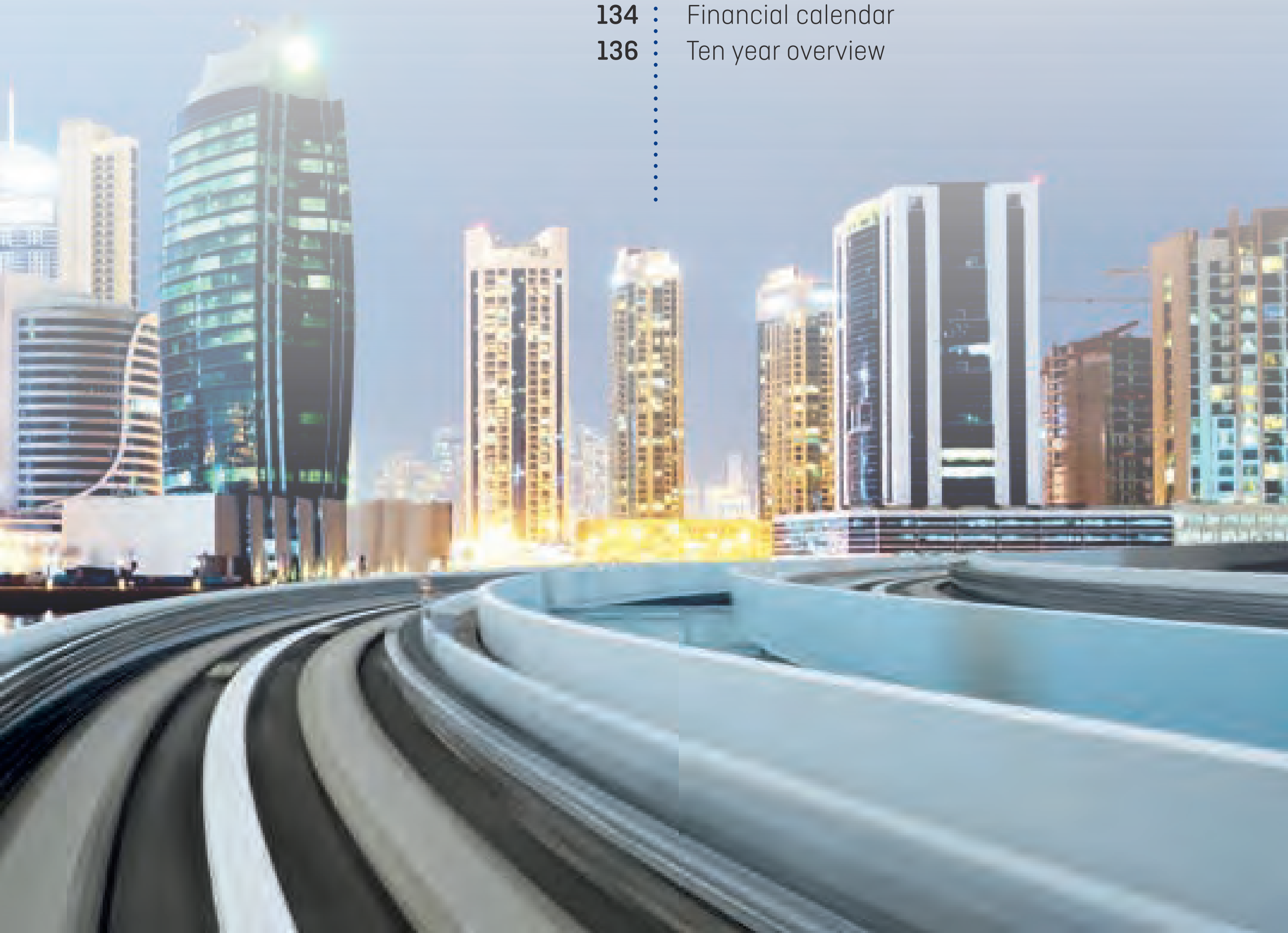
STRATEGIC BUSINESS UNIT PAPER

SURTECO DECOR GMBH Buttenwiesen-Pfaffenhofen BAUSCHLINNEMANN GMBH Sassenberg	Dieter Baumanns Reinhold Affhüppe Andreas Pötz
KRÖNING GMBH Hüllhorst	Wolfgang Gorißen
SURTECO UK LTD. Burnley	David Doulin Kim Hughes
BAUSCHLINNEMANN NORTH AMERICA INC. Myrtle Beach, USA SÜDDEKOR LLC Agawam, USA	Mike Phillips
SURTECO ITALIA S.R.L. Martellago	Marco Francescon
DAKOR MELAMIN IMPRÄGNIERUNGEN GMBH Heroldstatt	Dieter Baumanns Reinhold Affhüppe
SURTECO ART GMBH Willich	Bernd Poliwoda Dieter Baumanns

ANNUAL REPORT 2017

Future
Strategy

ISIN: DE0005176903
Ticker symbol: SUR



FOREWORD
BY THE BOARD OF MANAGEMENT

Dear Shareholders and Friends of our Company,

Dipl.-Kfm. Andreas Riedl

Member of the Board of Management
CFO

A. Riedl

Dr.-Ing. Herbert Müller

Chairman of the Board of Management
CEO

H. Müller

The business year 2017 proved to be a successful year for SURTECO with both opportunities and challenges. This is demonstrated by the significant growth in sales and operating result. The takeover of the Probos Group in June enabled us to reach another milestone in the sustainable and profitable expansion of our company. This acquisition offers us significant value added. The product portfolio and the production technology acquired are a perfect complement to our manufacture of plastic edgebandings. The production sites in Portugal and Brazil enable us to expand our geographical presence, particularly in the biggest economy of South America. The company has a highly profitable business and has been integrated seamlessly into our group of companies. The excellent reputation enjoyed by SURTECO among banks and in the financial markets is demonstrated by the fact that we succeeded in initially financing the purchase price of € 99 million through bridging finance and then by means of a promissory note loan at very favourable conditions. The financial instrument was new to us and the demand turned out to be so great that we took advantage of the favourable situation and increased the issue volume to € 200 million. This already refinances the repayment of the last tranche of the US private placement next year and secures financial resources for our future growth at low interest rates for the next 5 to 10 years.

We also realigned the SURTECO Group strategically for the coming years. Our technical know-how and the very comprehensive product range places us in a unique position within our sector. This expertise was previously situated in several independent subsidiary companies and it will now be consolidated and bundled. In the course of the growth strategy SURTECO 2025+, we are going to merge the companies BauschLinnemann, Döllken-Kunststoffverarbeitung and SURTECO DECOR to create SURTECO GmbH. This strategic focus on purchaser sectors and customer needs with solutions packages from a single source extending across the segments of plastics and paper will significantly improve the service packages for our customers and our efficiency. We are confident that this will generate momentum for our organic growth and our profitability.

In operational terms, we have been able to achieve gratifying improvements for the most important indicators. In the business year 2017, sales increased by 8 % to the current level of € 690 million. Furthermore, the acquisitions of the Nenplas Group at the end of 2016 and the Probos Group referred to above contributed to this result. These acquisitions were attributed to the plastics line but this segment also grew organically over the course of 2017. Business development in the paper line settled at a stable level. Although sales revenues were significantly below the year-earlier level in the first half of the year, the second half of the year posted a positive development. However, it proved impossible to compensate fully for the deviations from the first half of the year. Thanks to earnings contributions from the acquired companies and gratifying productivity increases in the paper line, it was possible to more than compensate for the partly drastic increases in the cost of raw materials, some of which were very considerable. The Group EBIT therefore rose by 9 % to € 44.7 million.

The fact that pretax earnings at € 33.5 million was below the year-earlier level is exclusively due to the very volatile exchange rates. These had a negative impact on account of the valuation for the financial result on the balance-sheet date – luckily this had no cash effect.

True to our philosophy of enabling our shareholders to have an appropriate share in the success of the company, we will propose a stable dividend of € 0.80 per share. On the basis of the year-end share price, this yields a respectable dividend return of 3.0 %.

We should like to take this opportunity to express our very warmest thanks to our employees for their great commitment. Naturally, we would also like to extend a big thank you to our customers, partners and suppliers, as well as special thanks to our shareholders for their support and the trust they have placed in us.

In summary, our message is that SURTECO is on a growth trajectory. And we want to shift up to an even higher gear with our strategy SURTECO 2025+. We will be delighted if you continue to support us on this journey.

REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

Dr.-Ing. Jürgen Großmann

Chairman of the Supervisory Board of SURTECO SE

In the business year 2017, the Supervisory Board of SURTECO SE carried out all the functions allocated to it under statutory regulations and the Articles of Association. We regularly advised the Board of Management on the management of the company and monitored the measures it took. In this process, we were involved in all the fundamental decisions taken. The Board of Management regularly kept us informed in comprehensive written and verbal reports. We were informed promptly about the key aspects of the performance of the business and about significant business transactions. We were also given detailed information about the current income situation and planning, as well as the risks and risk management. The economic situation presented in the reports by the Board of Management and the development perspectives of the Group, the individual business areas and important participations in Germany and abroad, as well as the general economic environment were the subject of careful and detailed discussion in the Supervisory Board, and they were found to be appropriate. Resolutions were adopted as far as this was necessary in compliance with statutory regulations or the Articles of Association.

The Supervisory Board convened for a total of six meetings during the course of the business year 2017. No member of this governance body took part in fewer than half the meetings. The Chairman of the Supervisory Board furthermore remained in regular contact with the Board of Management outside these meetings through telephone calls and personal meetings.

Focuses of advice

In the business year 2017, the Supervisory Board intensively addressed the reporting of the Board of Management in detail and discussed the position of the company and the business strategy on the basis of the latest business figures available for the company. The most recent relevant indicators of the Strategic Business Units in the SURTECO Group (SBU Paper and SBU Plastics) and the subsidiary companies and participations were presented by the Board of Management at the meetings of the Supervisory Board, where they were analyzed and compared with the projected figures.

The economic environment in which the company is operating was subject to particularly intensive discussion. These deliberations continued with the themes of raw material prices and the availability of raw materials, as well as exchange rates and energy costs. The situation with the most important customers, the divisions of the foreign companies, and the conduct of the key competitors in the market were also considered.

The Supervisory Board addressed the acquisition of the Probos Group with registered office in Portugal in depth and with particular attention to detail. The Supervisory Board and the Presiding Board of the Supervisory Board passed all the resolutions necessary for the acquisition and financing of the purchase. The acquisition was completed in 2017. The Board of Management kept the Supervisory Board continuously informed about the implementation of the project and the integration of the Probos Group within the SURTECO Group. The same applies to the British Nenplas Group, which was acquired at the end of 2016.

In 2017, the Supervisory Board continued to engage with the “Strategy SURTECO 2025+” submitted by the Board of Management at a number of meetings. This strategy is intended to enhance the competitiveness of the company and includes a merger of BauschLinnemann GmbH, SURTECO DECOR GmbH and Döllken-Kunststoffverarbeitung GmbH in a single operational business called SURTECO GmbH. The personnel and organizational measures associated with this concept including the IT systems and the external profile were discussed in great detail. The Supervisory Board already took notice of and approved the fundamental concept in 2016. Concrete implementation measures requiring the consent of the Supervisory Board were not yet carried out during the reporting period.

The Supervisory Board engaged on an ongoing basis with the medium and long-term strategic direction of the group of companies at meetings and in discussions with the Board of Management. At the same time, common ground was established in that the Supervisory Board was in favour of the overall strategic direction intended by the Board of Management for the company.

At its extraordinary meeting held on 22 September 2017, the Supervisory Board approved the raising of a promissory note loan with a volume of up to € 200 million. It proved possible to place the promissory note loan in 2017.

During the reporting period, the Supervisory Board once again discussed the financial indicators associated with the US private placement ("USPP") that was floated in the business year 2007. Non-compliance with these financial indicators could have resulted in the conditions of the loan deteriorating or it could have led to the loan being called in by creditors, but they were once again complied with in 2017.

At its meeting on 27 April 2017, the Supervisory Board re-wrote the rules of procedure for itself and the Board of Management. This was carried out taking account of the rules of the Audit Report Reform Act.

The plans (budget and investment plan) submitted by the Board of Management for the business year 2018 were discussed, reviewed and adopted by the Supervisory Board at its meeting held on 21 December 2017, and the capital expenditure put forward by the Board of Management were approved.

At its meeting held on 27 April 2017, the Supervisory Board adopted the proposals for the agenda of the Ordinary General Meeting 2017.

Compensation for the Board of Management

The Supervisory Board approved the variable compensation elements of the Members of the Board of Management for the business year 2016 at its meeting held on 27 April 2017.

Personnel decisions by the Supervisory Board

At its meeting on 29 June 2017, the Supervisory Board decided to appoint Mr. Andreas Riedl as a Member of the Board of Management for a period of office of three years with effect from 1 July 2017.

At its meeting on 23 October 2017, the Supervisory Board passed a resolution appointing Dr.-Ing Herbert Müller as a Member and Chairman of the Board of Management for a further period of office until midnight on 30 June 2021.

The period of office of Dr.-Ing. Gereon Schäfer as Member of the Board of Management came to an end on 31 March 2018. Dr. Schäfer did not seek a reappointment for personal reasons so that the Supervisory Board did not have to take a decision on this matter. The Supervisory Board would like to take this opportunity to thank Dr. Schäfer for his work as Member of the Board of Management and wishes Dr. Schäfer all the best for the future.

Establishment of the compensation for the Audit Committee

At its meeting on 21 December 2017, the Supervisory Board defined the compensation for the members of its Audit Committee pursuant to § 12 (3) of the Articles of Association at a total amount of € 34,000.00 plus sales tax, which does not breach the upper limit of € 40,000.00 defined in the Articles of Association. The amount of € 34,000.00 was allocated to the individual members of the Audit Committee on the basis of their respective time commitment.

Personnel changes in the Supervisory Board

The period of office of the Member of the Supervisory Board Markus Kloepfer came to an end at the close of the ordinary Annual General Meeting held on 29 June 2017. The Supervisory Board thanks Mr. Markus Kloepfer for his work and for his many years of association with the company.

The Annual General meeting held in 2017 voted to appoint Dr. Christoph Amberger to replace Mr. Markus Kloepfer on the Supervisory Board. At its meeting on 29 June 2017, the Supervisory Board appointed Dr. Amberger as a Member of the Presiding Board and the Personnel Committee of the Supervisory Board. Mr. Wolfgang Moyses was appointed as a further Member of the Personnel Committee at the same meeting. No other personnel changes took place on the Supervisory Board during the period under review.

Work of the committees

The Supervisory Board formed an Audit Committee and a Personnel Committee whose members are listed in the Notes of the Annual Report. The committees have the function of preparing issues, topics and resolutions for the meetings of the Supervisory Board. There is also a Presiding Board in accordance with the Rules of Procedure of the Supervisory Board.

The Presiding Board of the Supervisory Board prepares the resolutions of the Supervisory Board if they relate to measures requiring the consent of the Supervisory Board. In urgent cases, the Rules of Procedure permit the Presiding Board to take the place of the Supervisory Board and grant consent to specific measures and transactions requiring approval. During the reporting period, the Presiding Board approved the acquisition of the Probos Group on the basis of a corresponding authorization by the plenary Supervisory Board.

The Audit Committee addressed issues relating to accounting and risk management, the Annual Financial Statements and the quarterly figures, the mandatory independence of the auditor, the appointment of the auditor to carry out the audit, the determination of the focuses of the audit and the agreement of the fee. The Chairman of the Audit Committee and from time to time the other members of the committee were in regular contact with the Board of Management and the auditors. The Chairman of the Audit Committee kept the other Members of the Audit Committee informed about individual issues in writing. The Audit Committee was convened twice during the course of the business year. The auditors carrying out the audit on the consolidated financial statements were present at one meeting and reported on the result of their audit.

The Personnel Committee held five meetings during the year under review. In particular, the committee addressed the proposal to calculate the variable compensation elements of the Members of the Board of Management for the business year 2016, the new appointments and reappointments of Members of the Board of Management and the draft for a competence profile for the Supervisory Board. The Personnel Committee drew up appropriate proposals for resolutions, and resolutions were passed by the plenary Supervisory Board at the relevant meetings of the Supervisory Board.

Reports on the meetings convened by the committees were submitted to the plenary session of the Supervisory Board.

Corporate Governance

The Supervisory Board addressed the ongoing development of the corporate governance principles in the company in 2017 and also took account of the regulations of the German Corporate Governance Code made on 7 February 2017. Within the scope of the efficiency audit, the Supervisory Board regularly carries out a self-assessment of its members and discusses the results in the plenary session of the Supervisory Board. In view of only slight deviations in the individual self-assessments during previous years, the self-assessment will be carried out in a two-year cycle, most recently in December 2017 for the business years 2016 and 2017. The results of this self-assessment were presented and discussed at the first meeting of the Supervisory Board in 2018.

On 21 December 2017, the Board of Management and the Supervisory Board submitted a new Declaration of Compliance, which was included in the

Declaration on Corporate Governance pursuant to § 289a German Commercial Code (HGB) and may be viewed on the Internet site of the company.

Targets for the proportion of women; independence; competence profile

At its meeting on 29 June 2017, the Supervisory Board defined new targets for itself and for the Board of Management in relation to the proportion of women on these governance bodies covering a period in each case up to 22 June 2022. At the previous meeting, the Supervisory Board also stipulated that all six shareholder representatives should be independent pursuant to section 5.4.2 of the German Corporate Governance Code. Finally, at its meeting on 21 December 2017 the Supervisory Board approved the competence profile for Members of the Supervisory Board proposed by the Personnel Committee.

Annual Financial Statements and Consolidated Financial Statements, auditing

The Annual Financial Statements of the company were drawn up in accordance with German accounting principles. The Consolidated Financial Statements for the business year 2017 were prepared on the basis of the International Financial Reporting Standards (IFRS). The Board of Management submitted to the Supervisory Board the Annual Financial Statements, and the Consolidated Financial Statements and the Management Report and the Consolidated Management Report with its recommendation for the appropriation of the net profit to be submitted to the Annual General Meeting. The auditor, PricewaterhouseCoopers GmbH, Wirtschaftsprüfungsgesellschaft, Munich, audited the Consolidated Financial Statements and the Annual Financial Statements of SURTECO SE, as well as the Management Report and the Consolidated Management Report and granted each of the documents an unqualified audit opinion. The Annual Financial Statements and Management Report, and the Consolidated Financial Statements and the Consolidated Management Report, and the audit reports of the auditor, and the recommendation for the appropriation of the net profit were submitted punctually to all the Members of the Supervisory Board. Intensive discussions on the financial statements were carried out in the Audit Committee meeting and at the Balance Sheet Meeting of the Supervisory Board held on 25 April 2018 in the presence of the auditor and following a report by the auditor pursuant to § 171 (1) sentences 2 and 3 Stock Corporation Act (AktG).

We examined the submitted documents. Furthermore, we took note of the report by the auditor. We have no objections. We therefore concur with the result of the audit. The Supervisory Board approves the Annual Financial Statements and the Consolidated Financial Statements prepared by the Board of Management. The Annual Financial Statements have therefore been adopted. We are in agreement with the Management Reports and in particular with the assessment of the ongoing development of the company. We agree with the proposal by the Board of Management for the appropriation of net profit that recommends payment of a dividend of € 0.80 for each no-par-value share.

The Audit Committee submitted a proposal for the appointment of the auditor of the accounts for the business year 2018 and the Supervisory Board also accepted this proposal.

The Supervisory Board would like to thank the Board of Management, the executive managers, the members of the Works Councils, and all the members of staff for the work they have carried out and for their commitment during the business year 2017.

Buttenwiesen-Pfaffenhofen, in April 2018.

The Supervisory Board

Dr.-Ing. Jürgen Großmann
Chairman

SUMMARY MANAGEMENT REPORT
SURTECO GROUP AND SURTECO SE FOR THE BUSINESS YEAR 2017

Basic principles of the group

Overview

The SURTECO Group (hereinafter also referred to as SURTECO) is a Group of mutually complementary companies operating on the global stage. It has primarily specialized in the manufacture of decorative surface coatings for furniture, flooring and interior design. SURTECO SE serves within this structure as the holding company with a controlling function. The manufactured products of the SURTECO Group are mainly used in the international flooring, wood-based and furniture industry, as well as by carpenters and artisan businesses. The products are generally used to coat wood-based materials such as chipboard and fibreboard. These materials thereby gain their final surface with appealing visual and haptic properties. These coated wood-based materials serve as the starting material for the manufacture of furniture, doors, laminated flooring or other products used for interior furnishings and fittings. SURTECO also offers an appropriate supplement for flooring requirements, with skirtings for professional floorlayers, and for the retail and professional sectors of the interior-design industry. Technical extrusions (profiles) made of plastic are also supplied for all industrial sectors and roller-shutter systems are included in the product range of the SURTECO Group.
Paper and plastic-based edgebandings constitute the product group produced by the SURTECO Group generating the strongest sales. These products are used to refine the

narrow edges and the cut edges of wood-based boards. The offering ranges from paper-based edgebandings – also known as melamine edgebandings – in different versions through to thermoplastic edgebandings which are manufactured from a range of different plastics tailored to the area of application.

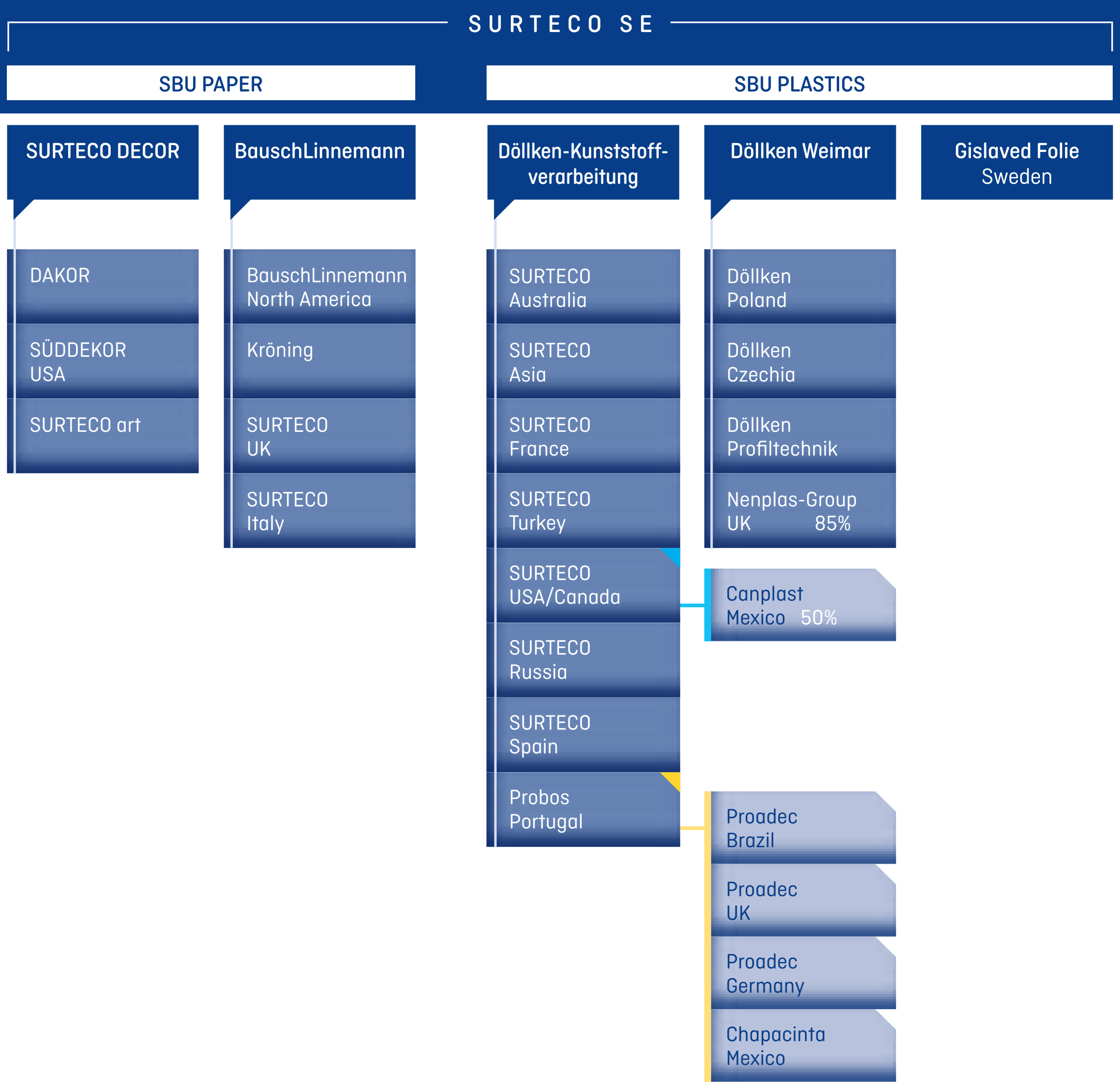
In June 2017, SURTECO took over all the shares in the Portuguese Probos Group, which produces and sells plastic edgebandings in Portugal and Brazil, and sells these products across the world. This acquisition enabled the company to strengthen its market shares in this product segment and expanded its regional presence in the strategically important markets of South and Central America.

SURTECO also ranks as one of the world's leading suppliers in the product area of finish foils. These are used for coating large areas of wood-based materials and therefore play a major role in the visual and haptic appraisal of the finished products, such as items of furniture or panelling. Just as in the case of edgebandings, SURTECO's offering includes finish foils based on specialist technical papers and formed with plastics. SURTECO therefore has a unique selling proposition in the market place. Finish foils based on paper are supplied in two different versions with fully impregnated and pre-impregnated materials. Fully impregnated finish foils are saturated in a resin bath within the Group and subsequently dried, whereas the raw paper for pre-impregnates has already been impregnated at the paper manufacturer. SURTECO seals both versions with a layer of lacquer and, if required, refines the surface with haptic textures depending on the design version. Finish foils based on paper are typically used to manufacture furniture for living areas, bedrooms and teenage settings. They are also used for profile wrappings and for the manufacture of panellings. Plastic-based finish foils from SURTECO are used to cater for special applications, such as interior design for ships, or for furniture surfaces requiring particularly hard-wearing properties.

SURTECO is also one of the world's biggest producers of decorative papers. These specialist papers are printed with wood, stone or fantasy decors and they are used as a material for providing a decorative finish. These papers are used within the Group for the manufacture of finish foils and impregnates. They are also supplied directly to customers from the flooring, furniture and wood-based materials industry. Decor development takes place at the Group's in-house design studio, which also produces the printing cylinders necessary for production, and also some of the printing inks and lacquers.

Similar to finish foils, impregnates from SURTECO are used to refine large areas of wood-based materials. However, the final surface for impregnates is only formed in the compression stage at the manufacturer of the refined product. The base is formed by the printed or single-

Operating group structure as at 31 December 2017



colour decor paper, overlay or release paper which is impregnated, dried and cut in formats. The product range is mainly used for surfaces subject to particularly heavy-duty usage, such as laminate flooring or worktops. SURTECO's product portfolio also includes release papers, which are required for the compression of impregnates. This product forms a protective layer between the impregnate and the hot pressed board. It additionally gives the melamine surface the desired texture and level of gloss finish.

The skirtings manufactured by SURTECO are primarily sold by the specialist flooring and wholesale trade. These high-quality products are either made entirely of plastic or they are wrapped with a wood-fibre core in a special three-part extrusion process. These products are mainly processed by professional floorlayers. SURTECO also produces plastic skirtings especially for trade and industry in the interior design sector. They are then marketed together with commercial products as a complete product range. SURTECO also has a long track

record in the manufacture of a wide range of extrusion products for interior design, for roller-shutter systems used in a wide range of industrial applications.
The Group markets its products by direct sales or through the Group's own sales locations, and it also has a dense network of dealers and agents on all continents of the world. The Group is increasingly using e-commerce as a sales channel. The most important sales markets for the SURTECO Group include Germany, Europe and North America, and following the acquisition of the Probos group South and North America. Production and sales facilities in Europe, North and South America, Australia and Asia ensure reliable and fast production tailored to the target market.

Internal corporate controlling system

Central controlling for the Group is carried out by the holding company SURTECO SE with registered office in Buttenwiesen-Pfaffenhofen near Augsburg, Germany. The holding company implements strategic planning and controlling, groupwide finance, investment and risk management, human resources strategy, Group accounting, IT management and investor relations activities. The individual subsidiary companies of the Group manage their business on the basis of group-wide parameters. The subsidiaries are organized in the Strategic Business Units (SBU) Paper and Plastics in line with the base materials used
Sales revenues and earnings before financial result and income tax (EBIT) are the most important financial controlling parameters for the SURTECO Group. At the level of the holding company SURTECO SE alone, the Group also uses a summarized true and fair view of a number of indicators, the "covenants", as a key financial controlling parameter. This is comprised of the indicators equity ratio, level of debt (gearing) and interest cover factor. The covenants define threshold values which the Group does not intend to exceed or fall short of. Compliance or non-compliance with these "covenants" is monitored, and reports are regularly submitted. Non-financial controlling parameters are not used as key controlling parameters at Group level or within the holding company.
Financial and non-financial performance indicators play a subordinate role for SURTECO SE as an individual company. Compliance with statutory requirements is not affected.

Strategic Business Unit Paper

DThe SBU Paper comprises SURTECO DECOR GmbH and BauschLinnemann GmbH, including their respective subsidiary companies*.
BauschLinnemann GmbH is based in Sassenberg and produces edgebandings and finish foils at its production facility there. Meanwhile, the production facility in Buttenwiesen has focused entirely on the manufacture and refining of finish foils. The subsidiary company Kröning GmbH located in Hüllhorst is a specialist supplier for surface coatings with exceptionally complex specifications. The product portfolio comprises edgebandings, finish foils and hybrid products. In the USA, the production company for finish foils, BauschLinnemann North America, Inc., Myrtle Beach, produces and sells products specially tailored to the North American market. Semi-finished products are delivered to the sales companies located in the United Kingdom, SURTECO UK Ltd., Burnley, and in cooperation with the SBU Plastics in Italy (SURTECO Italia s.r.l., Martellago) and Russia (SURTECO OOO, Moscow). They are then finished to customers' specific orders and supplied there.
SURTECO DECOR GmbH will take over the manufacture of decor papers in Germany at its main site in Buttenwiesen. At the production location in Laichingen, finish foils and release papers are also manufactured. The subsidiary company SUDDEKOR LLC, Agawam, carries out production of decor papers in the USA and also maintains one production site there for impregnates in East Longmeadow. Dakor Melamin Imprägnierungen GmbH based in Heroldstatt carries out the manufacture and sale of impregnates in Germany.
SURTECO art GmbH in Willich is responsible for the development of new decorative designs and engraving new print cylinders, and for in-house production of printing inks.

* If not separately identified, the locations of the individual subsidiary companies are in Germany.

Strategic Business Unit Plastics

The SBU Plastics includes Döllken-Kunststoffverarbeitung GmbH, Döllken-Weimar GmbH (operates since 16 February 2018 as Döllken Profiles GmbH), each with their subsidiary companies* and Gislaved Folie AB in Sweden. Döllken-Kunststoffverarbeitung GmbH and its subsidiary companies have specialized in the production and marketing of plastic edgebandings. Manufacture is carried out at the main production facility in Gladbeck, as well as in the USA (SURTECO USA Inc., Greensboro), in Canada (SURTECO Canada Ltd., Brampton), in Australia (SURTECO Australia Pty Limited, Sydney) and Indonesia (PT Doellken Bintan Edgings & Profiles, Batam). The Probos Group acquired in June 2017 produces plastic edgebandings at its head office in Portugal (Probos - Plásticos, S. A., Mindelo) and in Brazil (Proadec Brasil Ltda., São José dos Pinhais). Sales companies operated by the Probos Group are located in Germany (Proadec Deutschland GmbH, Bad Oeynhausen), in the United Kingdom (Proadec UK Ltd., Greenhithe), in Mexico (Chapacinta, S. A. de C. V., Tultitlán) and the USA (Edging Plus Inc., Greensboro; until 28 December 2017). The sales company Edging Plus Inc., Greensboro, was wound up on 28 December 2017 on account of the overlap with the sales network already present in the USA.
The subsidiary company of SURTECO Canada Ltd. in Santiago, Chile (Canplast SUD S.A.) was responsible as a joint venture for the production and sales of plastic edgebandings in South and Central American until December 2017. Owing to the acquisition of the Probos Group with a production location for plastic edgings in Brazil, the company sold the participation to Canplast SUD S.A. on 26 December 2017. Another sales location of SURTECO Canada Ltd. in Mexico (Canplast Mexico S.A. de C.V., Chihuahua) supports as a joint venture the markets on the American continent. The subsidiary companies of Döllken-Kunststoffverarbeitung GmbH also act as sales companies in Singapore (SURTECO PTE Ltd.), France (SURTECO France S.A.S., Beaucouzé), Spain (SURTECO Iberia S.L., Madrid), Turkey (SURTECO DEKOR A. Ş., Istanbul) and – in cooperation with the SBU Paper – in Italy (SURTECO Italia s.r.l., Martellago) and Russia (SURTECO OOO, Moscow) for global delivery. Döllken-Weimar GmbH based in Nohra and its subsidiary in Bönen manufacture floor strips and skirtings as well as wall edging systems for professional floorlayers, and for trade and industry in the interior design sector. The accessories and other products required for laying the products relating to all aspects of flooring are also supplied as product ranges for resale. The company maintains sales locations in Poland (Döllken Sp. z o.o., Sosnowiec) and the Czech Republic (Döllken CZ s.r.o., Prague). The subsidiary company Döllken-Profiltechnik GmbH in Dunningen and Nenplas Ltd., including its subsidiaries Polyplas Extrusions Ltd. and Delta Plastics Ltd., all located in Ashbourne, UK, (Nenplas Group) manufacture technical extrusions (profiles) for a wide range of industrial applications and for furniture roller-shutter systems. The production systems of the location Delta Plastics Ltd. were relocated to the sites Nenplas Ltd. and Polyplas Extrusions Ltd. in the business year 2017 and the business of Delta Plastics Ltd. was discontinued in December 2017.
Gislaved Folien AB in Gislaved Sweden has taken over the production of finish foils based on plastic and technical plastic foils for further processing to form panelling for ship's cabins, carpets and for other industrial sectors.

Organizational realignment

In December 2017, SURTECO SE presented its concept for a strategic realignment of the organizational structures. Against the background of focusing on customer needs, the intention was to merge the companies BauschLinnemann GmbH, Döllken-Kunststoffverarbeitung GmbH and SURTECO DECOR GmbH together and create a single unit under the name SURTECO GmbH. This pursues the objective of offering customers all services from a single source through a One Stop Shop. In this context, the intention is to reorganize the companies of the Group along sector lines.

* If not separately identified, the locations of the individual subsidiary companies are in Germany.

Management and controlling

As laid down in the rules and regulations applicable to a Societas Europaea (SE), the Ordinary General Meeting of the company is held during the first six months after the end of a business year. Any amendments to the Articles of Association can only be made with legal effect following consent by the shareholders at the Annual General Meeting and subsequent entry in the Company Register.
The Supervisory Board monitors and advises the Board of Management of the company. It is made up of nine members. Six members are appointed by the Annual General Meeting as representatives of the shareholders. Three members are appointed by the Works Councils of the three domestic companies with the largest number of employees as representatives of the workforce.
The management of the SURTECO Group operates on the basis of the dual management and controlling system in which the Members of the Board of Management are appointed by the Supervisory Board and manage the affairs of the company in accordance with the statutory regulations, the Articles of Association, and the rules of procedure governing the actions of the Board of Management and the Supervisory Board. The Board of Management and the Supervisory Board base their actions and their decisions on the interests of the company. They are committed to the objective of increasing the value of the company in accordance with the interests of the shareholders, the business partners, the employees and other stakeholders.

Economic report

Macroeconomic and sector-specific framework conditions

Global economic growth higher in 2017 than anticipated at the beginning of the year

The business activity of SURTECO has been linked with the general development of the economy across all countries since economic growth impacts on the purchasing and investment affinity of private individuals and business customers. This in turn drives the economic growth of our customers and therefore also influences our development. Key geographical markets of the SURTECO Group are Europe, North America and Australia. Including Germany, the proportion of these regions in Group sales amounts to 93 %. The takeover of the Probos Group in 2017 has enabled SURTECO to expand its position in Latin America, particularly in Brazil. This acquisition, together with the acquisition of the British Nenplas Group, has enabled the Group to further diversify its product portfolio and its regional distribution. The Nenplas Group, purchased in 2016, supplies various sectors including the caravan industry in the United Kingdom.
In 2017, the global economy grew rather more strongly than expected. According to reports by the International Monetary Fund (IMF), global economic growth increased to 3.7 %. While growth of 3.4 % was still being projected in January 2017, the IMF corrected this forecast further upwards in its latest publication entitled “World Economic Outlook” issued in January 2018. The reasons for this increase primarily related to improved economic data in Europe and Asia. In summary, the developed economies posted robust economic growth of 2.3 %. The economies in the emerging economies and developing countries underwent even greater expansion at 4.7 %.
The US economy confirmed the optimistic forecast given by the IMF at the beginning of the year with an increase of 2.3 %. The economies in the eurozone also posted significantly higher growth with plus 2.4 % compared with the

Economic growth for 2017 in %

World	+3.7
Germany	+2.5
Eurozone	+2.4
United Kingdom	+1.7
USA	+2.3
Central and Eastern Europe	+5.2
Latin America	+1.3
Asia	+6.5

Source: International Monetary Fund (IMF), World Economic Outlook, Update January 2018.

previous year (+1.7 %). This positive trend was mainly driven by the most important EU countries of Germany (+2.5 %), France (+1.8 %), Italy (+1.6 %) and Spain (+3.1 %). In spite of uncertainties relating to Brexit, the United Kingdom achieved robust growth of 1.7 %. Upward development demonstrated dynamic performance with plus 5.2 % in Central and Eastern Europe. The world's economic engine in the form of China continued growth at the level of 2016 with a rise of 6.8 %. Economic development in the remaining three BRIC countries also pursued the positive growth trend. Brazil (+1.1 %) and Russia (+1.8 %) once again succeeded in generating moderate growth after the recessionary development in the previous year. India's economy demonstrated renewed dynamic development with a plus of 6.7 %.[1]

Sales and business performance

Group sales up by 8 % over the previous year

Accelerated by the acquisition of the Probos Group in June 2017, Group sales increased by 8 % in the business year 2017 to the current level of € 689.7 million (2016: € 639.8 million). Owing to the Probos acquisition, the significant increase in sales exceeded the forecast provided in the Annual Report from the previous year and is situated within the target frame of the adjusted forecast given in the half-year report in August 2017. The Probos companies contributed € 36.9 million to the sales growth of the Group between July and December 2017. The Nenplas Group purchased in December 2016 generated sales amounting to € 19.5 million in 2017. These acquisitions were integrated in the Strategic Business Unit Plastics, which was again able to achieve organic growth in 2017 after adjustment for these sales. By contrast, the business performance of the Strategic Business Unit Paper in the first half of 2016 was below the level of the comparative year-earlier period owing to high order backlogs as a result of relocation.

The focus of the business activity of the acquired companies is in the rest of Europe (not including Germany) and in South America. As a consequence, sales revenues in the rest of Europe rose significantly by 11 % compared with 2016. A relatively small share of sales generated in the South American Continent was attributable to the SURTECO Group in 2016. The business activities of the Probos Group in this market therefore led to an exceptional increase of 252 %. In North America and Asia, sales conversely eased slightly by 2 % in each case. Once again, business in Australia advanced by double digits with an increase of 13 %. Foreign sales overall went up by 10 % to € 514.0 million. The foreign sales ratio went up by two percentage points to 75 %. Domestic business for the SURTECO Group rose slightly by 1 % to € 175.7 million, although the German furniture industry posted declining sales in the sectors relevant for SURTECO in 2017.

[1] Source: International Monetary Fund (IMF), World Economic Outlook, Update January 2018.

Strategic Business Unit Paper:

The Strategic Business Unit Paper generated sales of € 368.0 million (2016: € 385.4 million) to make up 53 % (2016: 60 %) of Group sales in 2017. The difference in sales compared with the previous year amounting to 5 % is essentially due to the follow-on effects of concentration in German decorative printing activities. This resulted in our customers continuing to place stockpiling purchase orders in the business year 2016. Furthermore, the company withdrew from low-margin volume business with pre-impregnated finish foils in order to streamline its portfolio. The quarterly analysis highlights this development since the turning point signalling a return to rising sales came in the third quarter of 2017. Sales growth at the Strategic Business Unit Paper developed by 9 % and 11 % respectively less than in the previous year during the first two quarters, whereas it outperformed the values for 2016 by 3 % in the third quarter and by 2 % in the fourth quarter. However, the positive development in the second half of the year failed to compensate for the difference from the first 6 months so that the sales development at the year-earlier level projected in the last Annual Report could not ultimately be realized. As a consequence, the company already adjusted the sales forecast for the paper line in the half-year report for 2017.

Annual sales fell back for the reasons specified above by -18 % in decorative printing, -5 % in impregnated products, -3 % in pre-impregnated finish foils and -2 % in melamine edgebandings compared with the previous year. Business underwent positive development with fully impregnated finish foils generating growth of 8 %, while release papers generated growth of 38 %.

The fall in sales was distributed over all geographical markets. Domestic business and sales in Europe (not including Germany) decreased by 4 %. Sales in North and South America were 6 % below the year-earlier level, and sales in Asia and Australia making up a relatively small proportion of sales were 16 % and 29 % respectively below the year-earlier values. The foreign sales ratio remained constant at 75 %.

Strategic Business Unit Plastics:

The sales of the Strategic Business Unit Plastics rose by € 67.3 million (+26 %) in the business year 2017 compared with the previous year to € 321.7 million (2016: € 254.4 million). This advance entailed an increase in the proportion of total sales to 47 % after 40 % in 2016. This significant increase in sales is due on the one hand to the acquisition of the Nenplas Group in December 2016 – as projected in last year's Annual Report – and to organic growth amounting to € 12.2 million, and on the other hand to contributions to sales made by the Probos Group acquired in June 2017. Since the Nenplas Group manufactures technical extrusions (profiles) and these products have previously made up a comparatively small proportion of sales in the plastics line, the business transactions in this product segment rose disproportionately by 138 % in 2017 compared with 2016.

The Probos Group with production facilities in Portugal and Brazil and sales companies in the UK, Germany and Mexico is one of the world's biggest plastic edgebandings manufacturers. Sales with plastic edgebandings – also the product segment in the plastics line with the biggest sales to date – therefore increased by 30 % compared with 2016. Sales with skirtings and associated products went up slightly by 1 %. Owing to low demand for plastic foils used for further processing to produce carpets and fiercer competition from Asia, sales with plastic foils came down by 4 %. Business with roller-shutter systems languished at an overall low level of sales down 8 % on the previous year.

The positive development of sales was distributed across all country groups. Domestic sales rose by 6 % and in the rest of Europe (+42 %), business transactions also went up along with South America, essentially driven by acquisition. Organic sales went up by 5 % in North America, by 9 % in Asia and by 16 % in Australia. The foreign sales ratio increased significantly on the back of the acquired companies by 5 percentage points to 74 %.

Sales revenues in € million SURTECO Group

Net assets, financial position and results of operations

Value added

The corporate performance of the SURTECO Group went up in the business year 2017 to € 700.0 million (2016: € 658.1 million). Sales revenues at € 689.7 million driving this performance were above the value of € 639.8 million for the previous year, while other income – comprising own capitalized work, other operating income and interest income – at € 10.3 million remained below the level of the previous year (€ 18.3 million). The cost of materials (-> expense items) rose to € 335.0 million after € 324.6 million in the previous year. Other expenses, made up of other operating expenses, other financial expenses and stock reduction, were also above the level for the previous year at € 110.5 million (2016: € 98.7 million) as was also the case for depreciation and amortization (€ 38.4 million after € 33.5 million in 2016). Overall, the net value added increased from € 201.3 million in 2016 to the current level of € 216.1 million in the business year 2017.

This value added was attributable to the shareholders in the form of a dividend payment of € 12.4 million equal to the dividend paid in the previous year, to employees with acquisition-related higher personnel costs amounting to € 174.5 million after € 158.0 million in the previous year, and to tax expenses amounting to € 7.2 million (2016: € 11.3 million) and to lenders in the form of interest payments amounting to € 8.4 million (2016: € 8.8 million). Overall, value added of € 13.6 million was retained within the company after € 10.8 million in the previous year.

Value added calculation

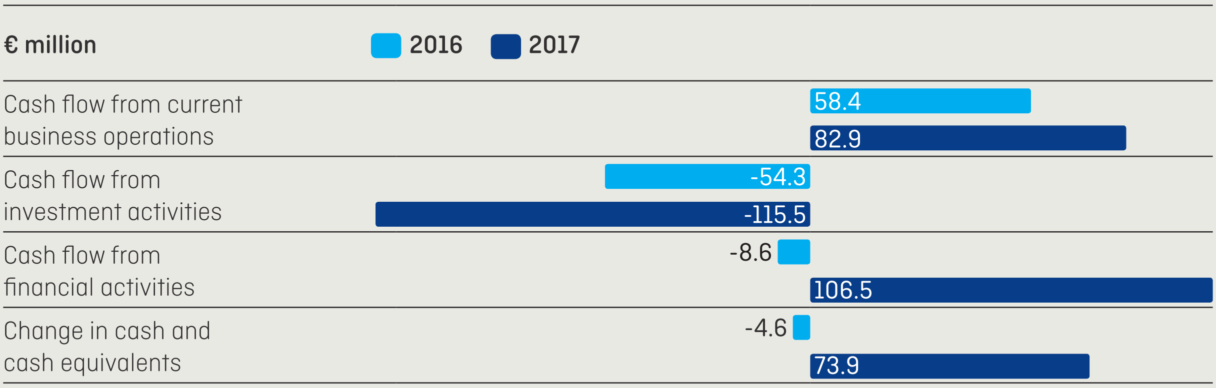
€ million	2016	in %	2017	in %
Sales revenues	639.8		689.7	
Other income	18.3		10.3	
Corporate performance	**658.1**	**100.0**	**700.0**	**100.0**
Cost of materials	-324.6	-49.3	-335.0	-47.9
Depreciation and amortization	-33.5	-5.1	-38.4	-5.5
Other expenses	-98.7	-15.0	-110.5	-15.8
Creation of value added (net)	**201.3**	**30.6**	**216.1**	**30.9**
Shareholders (dividends)	12.4	6.2	12.4	5.7
Employees (personnel expenses	158.0	78.5	174.5	80.7
Government (taxes)	11.3	5.6	7.2	3.3
Lenders (interest)	8.8	4.4	8.4	3.9
Distribution of value added	**190.5**	**94.6**	**202.5**	**93.7**
Remaining in the company (value added)	**10.8**	**5.4**	**13.6**	**6.3**

Cash flow statement

The cash flow from current business operations at € 82.9 million in 2017 increased by € 24.5 million over the value for the previous year (€ 58.4 million). While internal financing with higher payments for income tax (€ -9.2 million after € -4.1 million in the previous year) and other non-cash expenses/income of € -9.7 million (previous year: € -0.4 million) was below the value for the previous year, the change in assets and liabilities (net) during the reporting period amounted to € 21.7 million after € -14.7 million in 2016. This essentially results from an acquisition-related increase in trade accounts payable amounting to € 14.3 million after € -1.2 million in the previous year and the increase in other liabilities of € 6.3 million following € -8.4 million in 2016. This contrasted with a decrease in trade accounts receivable of € -5.9 million (2017: € 7.7 million).

The acquisition of the Probos Group is reflected in the acquisition of companies in the amount of € -82.8 million. The value for the previous year of € -23.5 million includes the purchase of the Nenplas Group. In conjunction with the acquired cash and cash equivalents of € 8.7 million (2016: € 2.1 million) and the acquisition of property, plant and equipment (€ -40.8 million in 2017 after € -31.5 million in 2016) and the acquisition of intangible assets (€ -1.9 million after € -3.0 million), cash flow from investment activities of € -115.5 million (2016: € -54.3 million) results for the business year 2017.
The cash flow from financial activities rose significantly from € -8.6 million in 2016 to € 106.5 million. Key drivers for this were the floating of long-term debt amounting to € 201.3 million (2016: € 16.5 million) with a concurrent change in short-term financial liabilities amounting € -72,1 million (2016: € -5.7 million). This reflects the repayment of a tranche from

Change in financial resources at 31 December



Calculation of free cash flow

€ million	1/1/-31/12/2016	1/1/-31/12/2017
Cash flow from current business operations	**58.4**	**82.9**
Purchase of property, plant and equipment	-31.5	-40.8
Purchase of intangible assets	-3.0	-1.9
Proceeds from disposal of property, plant and equipment	0.1	0.5
Acquisition of companies	-23.4	-82.8
- net of cash acquired	2.1	8.7
Disposal of participations	1.2	0.4
Share of profit of companies accounted for using the equity method	0.2	0.4
Cash flow from investment activities	**-54.3**	**-115.5**
Free cash flow	**4.1**	**-32.6**

the US Private Placement in 2017. Overall, the change in cash and cash equivalents amounted to € 73.9 million after € -4.6 million in the previous year. Mainly due to the acquisition of the Probos Group free cash flow was € -32.6 million in the business year 2017 after € 4.1 million in the previous year.

Balance sheet performance

In the business year 2017, the acquisition of the Probos Group with the associated raising of a promissory note loan and the repayment of a tranche from the US Private Placement (USPP) exerted a significant impact on the balance sheet of the SURTECO Group. Consequently, the balance sheet total rose at year-end 2017 to € 842.6 million after € 673.9 at 31 December 2016. Cash and cash equivalents went up on the assets side by € 73.0 million to € 133.4 million. By contrast, other current financial assets fell back on account of the derecognized currency hedge for the repaid USPP by € 16.0 million to € 3.7 million on 31 December 2017. Current assets increased to € 326.2 mil-

Balance sheet structure of the SURTECO Group

€ million	31/12/2016	Percentage of the balance sheet total in %	31/12/2017	Percentage of the balance sheet total in %
Assets				
Current assets	261.3	38.8	326.2	38.7
Non-current assets	412.6	61.2	516.4	61.3
Balance sheet total	**673.9**	**100.0**	**842.6**	**100.0**
LIABILITIES				
Current liabilities	151.8	22.5	106.4	12.6
Non-current liabilities	175.5	26.1	387.0	45.8
Equity	346.6	51.4	349.2	41.4
Balance sheet total	**673.9**	**100.0**	**842.6**	**100.0**

Balance sheet indicators of the SURTECO Group

	2016	2017
Equity ratio in %	51.4	41.4
Level of debt (gearing) in %	39	54
Working capital in € million	122.8	114.4
Interest cover factor	9.2	10.8
Debt-service coverage ratio in %	42.3	34.0

lion (31 December 2016: € 261.3 million) with trade accounts receivable amounting to € 57.8 million after € 52.1 million on the year-earlier balance sheet date. On account of the acquisition of the Probos Group, property, plant and equipment increased to € 258.2 million (2016: € 245.6 million), intangible assets went up to € 66.7 million (2016: € 34.1 million) and goodwill rose to € 163.3 million (2016: € 118.8 million). Overall, non-current assets increased to € 516.4 million after € 412.6 million in the previous year. On the liabilities side, short-term financial liabilities came down from € 72.4 million in the previous year to € 5.7 million on the balance sheet date due to the repayment of a tranche of US$ 70 million from the USPP in August 2017. Conversely, trade accounts payable underwent acquisition-related growth from € 48.9 million to € 63.2 million and income tax liabilities also increased from € 2.6 million to € 3.2 million while other current financial liabilities increased from € 21.7 million in the previous year to € 26.2 million. Accumulated current liabilities fell from € 151.8 million on the year-earlier balance sheet date to € 106.4 million on 31 December 2017. In October 2017, the company placed a prom-

issory note loan amounting to € 200 million for the purpose of financing the acquisition of the Probos Group and to repay the tranche from the USPP and to provide general financing for the company. This caused the long-term financial liabilities to rise from € 123.6 million to € 317.7 million on the balance sheet date in 2017. In conjunction with increased deferred tax liabilities amounting to € 52.0 million after € 34.6 million on the year-earlier balance sheet date, non-current liabilities went up to € 387.0 million (2016: € 175.5 million).
Equity at € 349.2 million rose slightly above the year-earlier value of € 346.6 million. Owing to the simultaneously significant increase in the balance sheet total, the equity ratio accordingly fell to 41.4 % on 31 December 2017 (2016 balance sheet date: 51.4 %). Net financial debt rose from € 135.6 million to € 190.0 million and the level of debt (gearing) therefore also went up from 39 % in the previous year to 54 % at year-end 2017. In the business year 2017, the covenants (→ internal corporate controlling system) were maintained during the business year. On the balance sheet date, the SURTECO Group had external credit lines amounting to € 47.6 million. At this point, € 1.4 million had been drawn on these lines.

Expenses

The most important expense items in the two Strategic Business Units continued to be cost of materials in the business year 2017. The Business Unit Plastics has by far the highest expense for the plastics polyvinyl chloride (PVC), acryl nitrile butadiene styrene (ABS) and polypropylene (PP). The average purchase prices for these materials in the business year 2017 were significantly above the level of the previous year and exceeded expectations. On account of the increased prices for the intermediate products and the scarce volumes available, prices for ABS increased in the double-digit range. This development was experienced across the world and the companies in the Probos Group acquired in the plastics sector were also impacted. As a consequence, the cost-of-material ratio for the Strategic Business Unit Plastics increased noticeably above the value for the previous year. In the Strategic Business Unit Paper, the cost of technical raw papers in 2017 went up slightly compared with the previous year. More significant price increases were posted for impregnating resins and chemical additives. However, since the costs of materials in the paper line for the previous year were still negatively impacted from the follow-on effects arising from relocations of decorative printing activities, and productivity and efficiency enhancement measures also exerted their impact during the reporting period, the cost of materials ratio came down for the Strategic Business Unit Paper in a comparison with the previous year. This effect was also transferred to Group level alongside changes in the product mix so that the cost of materials ratio for the Group at 48.4 % was 1.6 percentage points below the previous year. However, the cost of materials overall at € 335.0 million was € 10.4 million above the value for the previous year of € 324.6 million owing to acquisitions.
Acquisitions also drove up the personnel expenses of the Group by € 16.5 million to € 174.5 million. The personnel expenses ratio also rose from 24.3 % in the previous year to 25.2 %.
Compared to 2016, the ratio for other operating expenses improved slightly by 0.1 percentage points to 15.1 %. In the previous year, these expenses still included € 2.2 million integration expenses for the paper line, whereas the Strategic Business Unit Plastics included one-off expenses amounting to € 2.0 million for the acquisition of the Probos Group in the business year 2017. Accumulated other operational expenses due to the acquired companies at € 104.8 million were € 6.1 million above the previous year.

Investments in property, plant and equipment

In the business year 2017, the SURTECO Group invested € 42.7 million (2016: € 34.5 million) primarily in the expansion of existing production facilities, new production lines, and in buildings and fittings. Additions amounting to € 40.8 million (2016: € 31.5 million) were attributable to property, plant and equipment and € 1.9 million (2016: € 3.0 million) were attributable to intangible assets. Additions for the Strategic Business Unit Paper amounted to € 17.9 million (2016: € 17.5 million) and for the Strategic Business Unit Plastics to € 24.6 million after € 16.9 million in the previous year.

Group results

With changes in inventories amounting to € -1.9 million in 2017 (2016: € 5.4 million) and other own capitalized work amounting to € 5.1 million (2016: € 3.9 million), total output of the group increased by 7 % to € 692.9 million after € 649.1 million in the previous year. After deduction of acquisition-related higher expense items and other operating income amounting to € 4.5 million after € 6.5 million in the previous year, the operating result (EBITDA) of the Group rose by 12 % to € 83.1 million (2016: € 74.3 million). Depreciation and amortization at € 38.4 million was above the value for the previous year amounting to € 33.5 million essentially on account of the purchase price allocation (PPA) arising from the takeover of the Probos and Nenplas Group. This yields earnings before financial result and income tax (EBIT) amounting to € 44.7 million (2016: € 40.9 million). This increase of 9 % means that EBIT is situated within the forecast range of € 42 million to € 46 million. The financial result for the business year 2017 was essentially impacted by negative currency effects amounting to € -2.7 million arising from the valuation on the balance sheet date of group-wide liabilities. In the previous year, a positive amount of € 1.8 million was still generated from currency translation, from which a difference of € -4.5 million was generated arising out of the development of exchange rates. As a result, the financial result deteriorated in 2017 in spite of improved interest expense to € -11.2 million (2016: € -5.8 million). For this reason, pretax earnings (EBT) at € 33.5 million were below the previous year (€ 35.0 million). After deduction of income tax amounting to € -7.2 million (2016: € -11.3 million), net income of € 26.3 million (2016: € 23.8 million) remains. Including non-controlling interests, consolidated net profit amounted to € 26.2 million after € 23.9 million in the previous year. The unchanged number of 15,505,731 no-par-value shares yields earnings per share of € 1.69 (2016: € 1.54) for the business year 2017.

Result of the Strategic Business Units

An increase in EBIT by 6 % to € 26.9 million (2016: € 25.3 million) enabled the Strategic Business Unit Paper to exceed the forecast of the last year as in the case of the Strategic Business Unit Plastics with an increase of 11 %. The earnings contributions of the Probos and Nenplas Group are included in the EBIT of the plastics line amounting to € 24.6 million (2016: € 22.1 million), as well as the negative impacts from the acquisition of the Probos Group.

HGB (German Commercial Code) financial statements for SURTECO SE

The financial statements of the holding company SURTECO SE were prepared on the basis of the accounting principles in accordance with the Third Book of the German Commercial Code (§§ 242 ff. and 264 ff. German HGB) in the version of the Balance Sheet Directive Implementation Act (Bilanzrichtlinie-Umsetzungsgesetz, BiLRUG) for large joint-stock companies and the Stock Corporation Act (Aktiengesetz, AktG). On 31 December 2017, the balance sheet total of SURTECO SE rose to € 659.8 million after € 527.5 million on the year-earlier balance sheet date. On the assets side of the balance sheet, fixed assets at € 315.5 million remained virtually at the level of the previous year at € 315.9 million. Conversely, receivables from affiliated enterprises went up by € 71.3 million to € 228.8 million and cash in hand increased by € 61.2 million to € 109.1 million on the balance sheet date for 2017. As a result of this, current assets increased to € 343.5 million on 31 December 2017 (2016: € 211.3 million). On the liabilities side of the balance sheet, liabilities underwent the most significant changes. Due to the floating of the promissory note loan in October 2017, liabilities to banks increased from € 163.3 million in the previous

year to € 308.0 million at year-end 2017. By contrast, liabilities to affiliated enterprises fell back by € 17.7 million to € 32.4 million. Overall, liabilities increased to € 345.6 million (2016: € 216.1 million). Equity at € 309.2 million on the balance sheet date increased slightly by € 1.6 million compared with the previous year.
Since the holding company does not carry out any operations, the sales revenues of SURTECO SE in the amount of € 1.7 million after € 1.2 million in the previous year are comprised of intragroup reallocations for personnel costs. In the business year 2017, income from profit and loss transfer agreements at € 30.7 million was slightly below the year-earlier level of € 31.5 million. By contrast, losses from profit and loss transfer agreements fell significantly from € -10.5 million in the previous year to € -0.2 million in the reporting period. Overwhelmingly on account of exchange-rate effects from balance sheet valuations, other operating expenses rose from € -3.7 million in the previous year to € -7.7 million in the business year 2017. Personnel expenses amounting to € 5.0 million were € 0.2 million above the value for the previous year. In the business year 2017, interest income amounted to € -6.4 million after € -6.1 million in 2016. Deducting income tax amounting to € -0.7 million (2016: € 1.0 million) yields earnings after tax of € 14.1 million after € 10.2 million in 2016. Net income in the business year 2017 rose by € 3.9 million compared with the previous year to € 14.1 million.

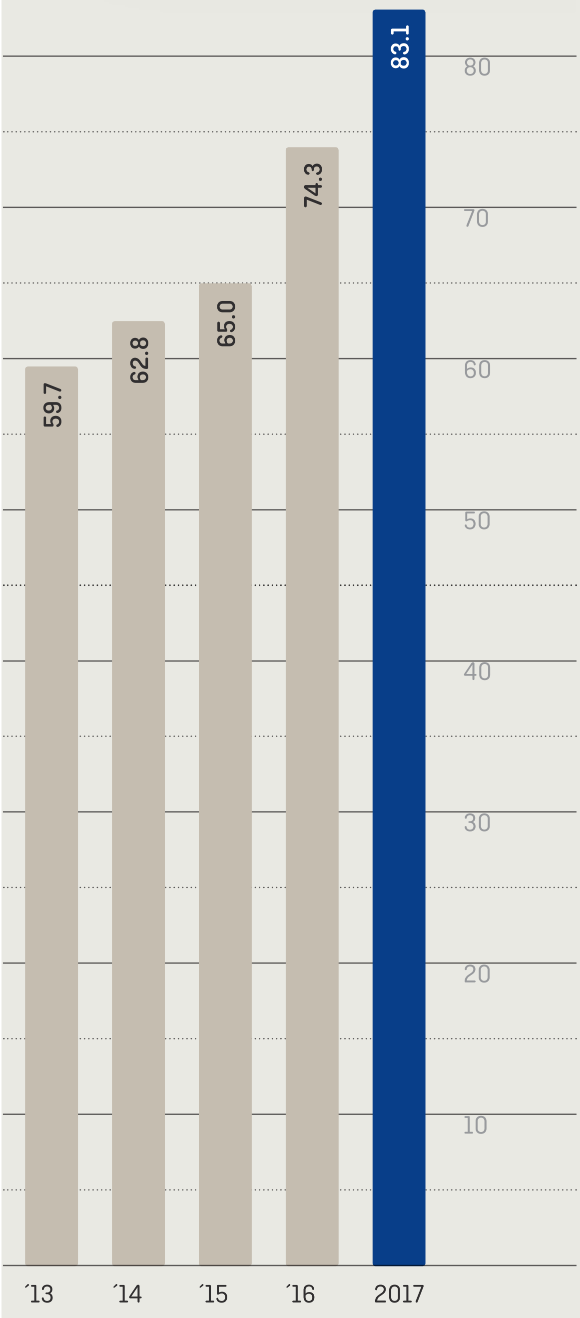
Overall statement on the economic situation

In the business year 2017, sales revenues presented a differentiated image in the Strategic Business Units. While the plastics line grew organically in line with expectations and increased its sales revenues through acquisitions, the paper line lagged behind the values for the previous year. However, this is essentially due to very high decor paper sales during the first half of 2016 that still go back to the previous concentration of German decorative printing activities. However, EBIT for the paper line rose more strongly than expected on account of further increases in profitability and EBIT of the plastics line increased on account of acquired companies. This positive result was only muted by significantly negative currency effects so that the accumulated pre-tax result of the Group was slightly below the value for the previous year. The balance sheet of the SURTECO Group is also in a good position. The Board of Management assesses the economic position of the Group and SURTECO SE as being positive overall.

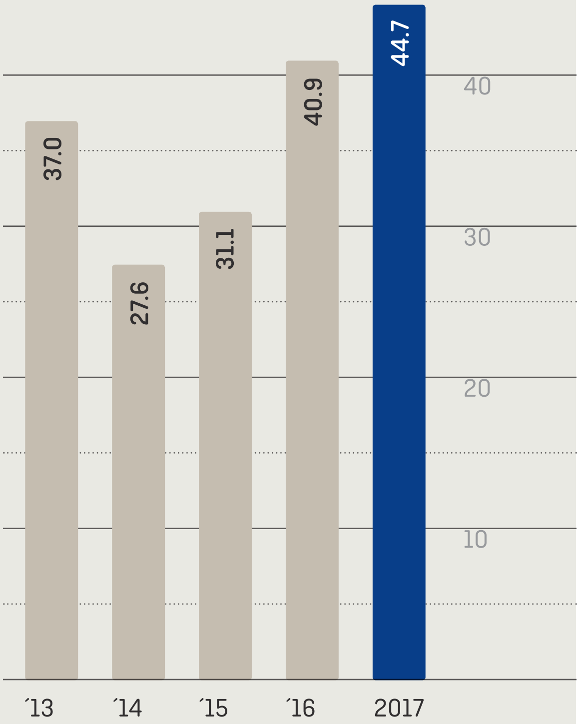
Research and developement

The research and development activities (R&D) of the SURTECO Group serve to expand and optimize the product range in order to meet the market and customer requirements, and to continuously improve the process capability for production with the Group and for further processing. Since within the SURTECO Group, each of the production locations specializes in specific products of the product range, research and development is carried out locally and is tailored to the individual product and the target market. A total of 187 employees in the SURTECO Group (2016: 153) are working on these activities within the SURTECO Group. In the business year 2017, the corresponding R&D expenses amounted to € 5.3 million after € 4.5 million in the previous year. This amount includes non-personnel costs and personnel costs. The personnel costs are already included in the item personnel expenses in the consolidated income statement.
A key target for R&D is in the development of new product innovations. Against the background of generating additional customer benefits with new products, comprehensive innovation management is carried out in the companies for identifying ideas. The function of R&D is then to review these ideas for technical feasibility and as necessary to make them ready for market in series production. The continuous improvement

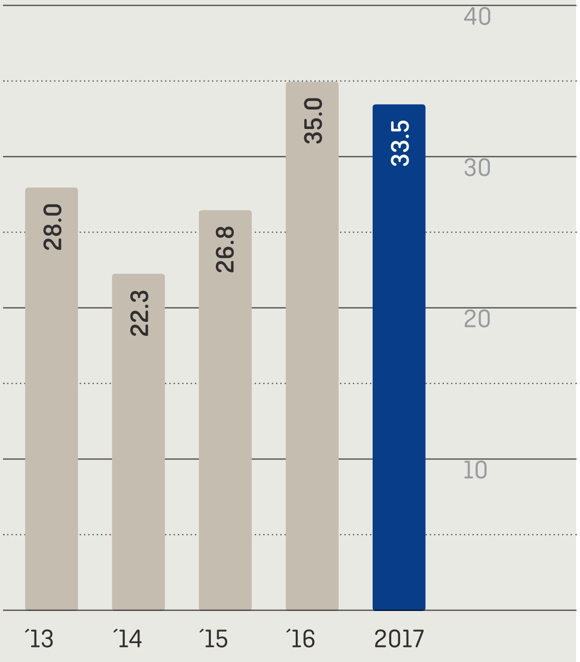
SURTECO GROUP
EBITDA in € million



SURTECO GROUP
EBIT in € million



SURTECO GROUP
EBT in € million



Employees by regions

Location	31/12/2016	31/12/2017	Change
Germany	1,802	1,860	+58
Portugal	0	269	+269
USA	268	247	-21
United Kingdom	182	188	+6
Brazil	0	150	+150
Canada	132	131	-1
Sweden	113	112	-1
Asia	88	102	+14
Australia	90	91	+1
Poland	33	37	+4
Mexico	0	32	+32
Italy	27	28	+1
France	21	20	-1
Russia	15	12	-3
Turkey	10	10	-
Czech Republic	6	6	-
Chile	41	0	-41
Romania	5	0	-5
	2,833	**3,295**	**+462**

of technical and visual characteristics of the current product range is also being accelerated in the context of a continuous process. The search for alternative, more environmentally friendly, more efficient or most cost-effective raw materials is also included among the functions of R&D activities.

People and training

3,295 people were employed in the workforce on 31 December 2017 and this number was significantly above the value of 2,833 for the previous year. This is primarily due to the acquisition of the Probos Group (467 employees) in June 2017. However, the number of employees also increased slightly even after adjustment for the acquisition and the sale of parts of the business at the Chilean location. This reflects the organic growth in the Strategic Business Unit Plastics. An analysis over the period of a year reveals that the number of employees in the Strategic Business Unit Papers at 1,347 was slightly less than the value of 1,366 for the previous year, whereas the effects described above meant that the level of personnel in the Strategic Business Unit Plastics rose from 1,353 to 1,724. An average of 20 employees were attributable to the holding company compared with 17 in the previous year. Overall, an average of 3,091 employees (2016: 2,736) were employed at the SURTECO Group in 2017. The average age at the Group was 43.1 years (2016: 43.0) and the average length of service was 12.7 years after 13.3 in 2016. The average sickness ratio at 3.6 % (2016: 4.0 %) and fluctuation at 6.8 % (2016: 7.2 %) underwent positive development. The number of apprentices rose to 116 in 2017 (2016: 106) and the training ratio went up accordingly to 6.3 % after 5.8 % in the previous year.

Risk and opportunities report

Risk Management System

The SURTECO Group with its individual subsidiary companies is exposed to a large number of risks on account of global activities and intense competition. A risk is deemed to be any event or circumstance that can lead to a negative deviation for the SURTECO Group now and/or in future from the planned corporate goals. The Group deliberately enters into risks with the aim of ensuring sustainable growth and increasing the corporate value, but avoids unreasonable risks. The remaining risks are reduced and managed by taking adequate measures. Foreseeable risks are covered by taking out insurance policies and deploying derivative financial instruments, if this is feasible at reasonable commercial conditions. However, it is not possible to exclude the possibility that insurance cover or hedging with financial instruments is inadequate in individual cases or that appropriate protection cannot be obtained for specific risks.

The Risk Management System is an integral element within the Group's strategy and planning process. It is made up of a number of modules which are integrated in the entire structural and workflow organization of SURTECO and its subsidiary companies. The Board of Management of the SURTECO Group is responsible for policy relating to risks and for the internal management and controlling system. The Board of Management works together with the management of the subsidiaries to identify risks. The management of the subsidiary companies implements the instructions of the Board of Management and is responsible within this framework for risks that it enters into in the course of its business activities. The management includes the employees in the Risk Management Department in the course of exercising their management functions. The Risk Management Manual applicable throughout the Group defines binding rules and conditions for the risk management process. This ensures that the identified individual risks are classified into damage and probability classes on the basis of their anticipated gross financial burden on the EBT with respect to the current and subsequent years using the following tables. Overcoming individual risks up to € 0.5 million is deemed to be the responsibility of the individual companies.

The identified individual risks are also allocated to risk categories to which the SURTECO Group is fundamentally exposed. The following risk and opportunities report explains these risk categories in general terms and provides information about the recorded individual risks in each category.

Damage class	Qualitative	Quantitative
1	Minor	> € 0.5 million - € 0.75 million
2	Moderate	> € 0.75 million - € 1.5 million
3	Major	> € 1.5 million - € 3.0 million
4	Threat to existence as a going concern	> € 3.0 million

Probability class	Qualitative	Quantitative
1	Slight	0 % - 24 %
2	Moderate	25 % - 49 %
3	Likely	50 % - 74 %
4	Very Likely	75 % - 100 %

Appropriate measures for reducing and overcoming the risks are defined and implemented with minimum costs for purposes of risk control and risk management. This may involve, for example, the tools of risk avoidance, risk limitation, risk transfer and the creation of adequate potential coverage. Since risks are continuously changing, the Risk Management System is also subject to continuous implementation of monitoring, documentation and reporting of the risks. Apart from regular reporting to the Board of Management and Supervisory Board, managers have a duty to report risks that occur unexpectedly without delay. The usefulness and efficiency of risk management and the controlling systems are monitored at regular intervals by the Board of Management and the management of the subsidiary companies. SURTECO is continually developing measures directed towards risk avoidance, risk reduction and risk hedging while also taking advantage of any business opportunities that arise.
Opportunities essentially arise on account of positive developments from outside influences of the kind that are described in the risk categories. Any opportunities identified are also recorded and documented, although they are not generally allocated to classes.

ACCOUNTING-BASED INTERNAL CONTROLLING AND RISK MANAGEMENT SYSTEM (ICS) – report in accordance with § 289 (5) and § 315 (2) no. 5 GERMAN COMMERCIAL CODE (HGB)

The ICS comprises the accounting-based processes and controls which are significant for consolidated financial statements. The SURTECO Group bases the structure of its internal controlling system on the relevant publications of the Institute of Auditors (Institute der Wirtschaftsprüfer, IDW). There were no significant amendments to the accounting-based ICS between the balance sheet date and the preparation of the management report.
The preparation of the accounts and the financial statements is primarily carried out locally and in accordance with local standards. The consolidated financial statements are drawn up in accordance with the International Financial Reporting Standards (IFRS). A uniform chart of accounts and the use of an accounting manual form the basis for these documents. The Group holding company supports the companies as a central service provider on issues relating to accounting and manages the consolidated accounting process.
The subsidiary companies are included in the consolidated financial statements using a partly integrated accounting and consolidation system and on the basis of reporting packages. Consolidation is initially carried out as a multistage process at the level of the subsidiary companies, then at the level of segments and finally at Group level. The consolidated financial statements are prepared using a permanent structured process based on a calendar for the financial statements.
The plausibility of the figures is ensured at every level by manual and systematic checks. Transparent responsibilities and access rules for IT systems relevant to the financial statements are significant elements in this process. The controlling principles of separation of functions, double-check principle and approval and release procedures are applied to the annual financial statements and the consolidated financial statements. Information from external service providers is checked for plausibility.

The risks and opportunities presented below apply equally to SURTECO SE and the SURTECO Group.

STRATEGIC CORPORATE RISKS AND OPPORTUNITIES

MACROECONOMIC RISKS, MARKET RISKS AND MARKET OPPORTUNITIES

The business development of the SURTECO Group depends significantly on macroeconomic conditions due to the Group's global activities and the high proportion of foreign sales. The economic development of the countries is therefore analysed as an indicator for the business performance since the manufactured products of SURTECO are primarily processed to create durable goods, such as furniture and flooring. Experience tells us that the inclination of consumers to purchase these goods increases when there is an economic upswing. Furthermore, the performance of the flooring, furniture and wood-based industry, and construction activity in the individual countries and markets is important for the business development of the Group. Both Strategic Business Units operate in more or less the same countries and sectors.

A local profile and cost leadership are key factors for market position and economic success in the market for coating products for furniture and interior design. This entails a product portfolio tailored to the market and control of operating processes and costs. SURTECO has production locations and additional sales locations on four continents, and this places the Group in the position of being able to supply its customers worldwide quickly as well as being able to identify trends in regional markets at an early stage. This gives SURTECO the opportunity to gain first-mover advantage when participating in trends. The qualitative and quantitative data from the markets and the subsidiary companies are recorded and evaluated in a differentiated system of internal reporting. This highlights and analyses any deviations from budgets, compliance with plans, and the emergence of new monetary and non-monetary risks. The business is then managed on the basis of the information gathered. The most relevant geographical markets for SURTECO are located in Germany, Europe and in North and South America. SURTECO may be able to benefit from an economic upswing in individual markets that stimulates demand for furniture. This would enable the company to participate indirectly in the upturn as a supplier. On the other hand, a global or local recession could result in consumers refraining from making investments in durable goods such as furniture, which could entail a drop in orders at SURTECO.

Similar to the development of geographical markets, the Group also monitors the dynamic performance of sectors relevant for SURTECO. The focus of this analysis is essentially on the flooring, furniture and wood-based industry. SURTECO will also be able to benefit from an upswing in sector development but equally will also be affected by an adverse development.

A number of individual risks with a damage potential of less than € 0.5 million were identified in the category of market risks in the Strategic Business Unit Plastics and beyond the threshold of € 0.5 million, a risk of damage class 1 and probability class 2. No market risks were identified in the Strategic Business Unit Paper.

In the category of market opportunities, several individual opportunities were identified with a weighted overall potential of € 0.9 million.

COMPETITIVE RISKS AND OPPORTUNITIES

An increased production depth has been observed among some competitors in the paper sector over recent years. This may lead to excess capacities and tougher competition. New local competitors may also enter the market at any time, particularly in the plastics sector. Conversely, the barriers to entry in the paper segment are relatively high on account of the investment sums required. SURTECO is countering the high level of competitive pressure by expansion and reinforcement of existing business, innovative products, and not least a further increase in efficiency and productivity.

Since SURTECO is represented worldwide through its network of sales companies and already holds a strong market position in its most important divisions, there is an opportunity to achieve further market penetration, for example on the back of enhanced integration of sales and marketing activities of the two Strategic Business Units. There is also an opportunity for SURTECO to play a proactive role in future consolidation within the sector.
No individual risks were identified in this risk class.

OPERATIONAL RISKS

PROCUREMENT RISKS AND OPPORTUNITIES

SURTECO is dependent on outsourcing from suppliers and partners for the procurement of semi-finished products and services. Inclusion of third parties in the equation creates risks, for example unexpected supply difficulties or unforeseeable price increases resulting from market consolidation, market bottlenecks or currency effects which could impact negatively on results. The Group meets risks associated with supply by a process of continuous material and supplier management. The measures involve analyzing the market intensively, carrying out in-depth quality inspection on the basis of jointly agreed specifications, arranging supply contracts, and detailed research into alternative raw materials.
In the business year 2017, the purchase prices of some important raw materials increased significantly in both Strategic Business Units. As a result, the price of the raw material ABS went up to a historic high, and the average prices of the plastics PVC and PP were also above the anticipated values. In the Strategic Business Unit Paper, the price level for impregnating resins, titanium dioxide and chemical additives rose significantly. The costs for printing base paper went up slightly.
Two individual risks with a loss potential of less than € 0.5 million were identified in the category of procurement risks for the Strategic Business Unit Plastics. Above the threshold of € 0.5 million, one risk was identified in the damage class 1 and the probability class 4 and one risk in the damage class 2 and probability class 3. No significant procurement risk was identified for the Strategic Business Unit Paper.
The company will be presented with opportunities if there is an unexpected reduction in the price of raw materials since this would exert a significantly positive impact on the earnings situation. The research and development departments have a rolling programme of research into alternative raw materials and additives so that there is a possibility of identifying cheaper or higher quality substitute products.

IT RISKS

Ensuring secure operation of all business processes requires constant monitoring and adaptation of the information technologies used in the Group. Against the background of a growing potential for risk based on increasing integration of computer-supported business processes in communication between the Group companies and in communication with customers, suppliers and business partners, ongoing development of the measures used to make information secure are a top priority. SURTECO limits risks relating to the availability, dependability and efficiency of information technology systems by making strategic investments and as appropriate by commissioning specialist companies. The Group reacts selectively to increased demands placed on the security of our systems within the scope of comprehensive security management. These include, for example, investment in current firewall, antivirus and high-availability systems. Potential risks can also be avoided through implementation of uniform software systems where all aspects relating to production and business administration are integrated and efficiently processed.
No individual risks were identified in this risk class.

PERSONNEL RISKS

The success of the company is dependent on having a workforce of qualified personnel at all levels. Shorter innovation cycles and increasingly international links place ever more

stringent demands on the skills of technical specialists and managers. The employees of SURTECO receive regular basic and advanced training inside the company and with external providers in order to ensure staff have the appropriate qualifications in the relevant functions and countries.
No individual personnel risks were identified in the SURTECO Group.

PRODUCTION RISKS / TECHNOLOGY OPPORTUNITIES

An efficient and smooth-running production process is the enabler for the delivery capability of the companies. This entails the risk that machines or equipment may break down or the production workflow may be disrupted in some other way. To a certain extent, SURTECO is able to distribute production over several sites and thereby effectively minimize the risk of downtime. Production processes that cannot be distributed, or only with difficulty, are protected against production outage with standard measures such as subdivision into different fire zones. Furthermore, the systems and equipment are carefully maintained and the employees receive intensive training. If there are any complaints, extensive investigations are carried out in order to ascertain the causes. It is not possible to exclude the possibility that complaints may actually be traced to intermediate products, and when this is the case it is not always effective to seek recourse with the supplier. Environmental officers apply defined standards and regulations to monitor the environmental safety of products and production.
Several risks in this risk category were recorded for the Strategic Business Unit Plastics below the threshold of € 0.5 million and one risk in damage class 2 and the probability class 2.
The production area also offers opportunities. A continuous improvement process was therefore implemented to identify and continuously realize any established potential for efficiency increases. The development of new production techniques and improvements in the existing processes also offer the opportunity of further improving the profitability of the company.

FINANCIAL RISKS

INTEREST AND CURRENCY RISKS, CURRENCY OPPORTUNITIES

The global nature of the business activities of the SURTECO Group results in delivery and payment flows in different currencies. Conversion of business figures and balance sheets from foreign subsidiaries into euros may entail risks which can only be hedged to a certain extent. For example, the acquired Probos Group generates around one third of its sales revenues in Brazil denominated in the historically volatile currency of the Brazilian real. The biggest proportion of sales in foreign currency within the SURTECO Group was represented by the USD with approximately 18 % in 2017. Opportunities may arise from correspondingly positive developments in currencies
Interest risks are mainly incurred for short-term financial liabilities. The majority of long-term financial liabilities are structured with fixed-interest rates. SURTECO meets the remaining interest and currency risks by hedging positions with derivative financial instruments, and regular and intensive analysis of a range of early-warning indicators.
Hedging of individual risks is discussed by the central Treasury with the Board of Management and the responsible Managing Directors, and decisions are arrived at jointly.
Two individual risks below the threshold of € 0.5 million were identified in the Strategic Business Unit Plastics for interest and currency risks.

LIQUIDITY RISKS

The Corporate Treasury Department in the holding company SURTECO SE is responsible for monitoring and controlling the liquidity of the Group and the major subsidiary companies. This provides an up-to-date picture of liquidity development at any time. The high levels of operating cash flow and the short payment targets mean that SURTECO has adequate liquid funds continuously available. There is also the option of drawing on open credit lines and on factoring agreements.

Nevertheless, there is a risk that earnings and liquidity can be compromised by default on accounts receivable and non-compliance with payment targets. The Group counters this risk by regularly reviewing the credit ratings of contracting parties and carefully monitoring default with customers. The risk arising from debit balances in accounts payable is low on account of the broadly based customer structure and cover provided by appropriate trade credit insurance policies.
No individual risks were identified in this category in the SURTECO Group.

FINANCING RISKS AND FINANCING OPPORTUNITIES

The refinancing of the Group and the subsidiary companies is generally carried out centrally by SURTECO SE. The majority of the financial liabilities of the Group have residual terms of up to five years (see also maturity structure in item 30.3 of the Notes to the Consolidated Financial Statements) and primarily have fixed interest rates. The Group operates with a wide base of lenders comprising insurance companies and banks. Financial indicators were agreed with the lenders at standard market conditions in loan agreements, for example the ratio of EBITDA to interest income, and these have to be complied with by SURTECO. These indicators are continuously monitored by the Board of Management and the Supervisory Board. If there is an impending breach of any of the indicators, consultations on individual measures take place as necessary. If the indicators are breached, the lenders have the right to serve notice on the loan agreements. The financial indicators were complied with during the business year 2017. The current view is it will be possible to comply with the financial indicators in the business year 2018.
No individual risks were identified for the financing risks in the SURTECO Group.

FLUCTUATIONS IN VALUE FOR DERIVATIVES AND PARTICIPATIONS

The SURTECO Group recognizes goodwill in the balance sheet. The values in use for the cash generating units of the Group were assessed as being higher than the book values within the scope of the impairment test for the business year 2017. As a consequence, no impairments were carried out. There was also no requirement for adjustments in any of the participations of SURTECO SE. However, the possibility that planned targets may not be reached in the future cannot be excluded; there may also be a requirement to carry out an impairment.
The derivative financial instruments concluded by the Group for hedging purposes and in order to reduce risks are valued on a monthly basis. If there are significant fluctuations in underlying values such as interest base rates and currency parities, this may exert a negative impact or improve the earnings of the Group. Item 30 in the Notes to the Consolidated Financial Statements provides detailed information on the derivative financial instruments of the Group.
No individual risks were identified from fluctuations in deliveries and participations in the SURTECO Group.

LEGAL AND REGULATORY RISKS / OPPORTUNITIES

Changes in supervisory requirements, customs regulations or other barriers to trade, as well as possible restrictions on price or foreign currency could impact negatively on the sales and the profitability.
The companies in the Group have formed adequate provisions to meet warranty claims. Part of the warranty risks have been covered by commercially effective insurance policies. Risks are reduced by the high level of production certainty, and the outstanding quality standard for the products manufactured by the SURTECO Group acts to reduce risk. SURTECO is not currently involved in any court or arbitration proceedings that could exert a significant negative influence on the commercial situation of the Group. Conversely, SURTECO filed an arbitration claim against

a company, the subject of which related to infringement of warranties in respect of environmental issues. The arbitration claim is intended to obtain compensation for the losses that were incurred and are still being incurred as a result of the warranty infringement and breach of the disclosure obligation. The claims already quantifiable amount to around € 2.1 million plus costs and interest. In addition, a declaratory action was brought relating to future losses that have not yet been established. Although SURTECO and its advisors believe that the claim is well-founded, the legal dispute is naturally subject to the usual uncertainties which are associated with a proceeding of this nature. At the end of May 2017, an oral proceeding was held and evidence was taken. Further written submissions then took place and the oral proceeding was opened again. The court of arbitration has not yet handed down a decision.

When business activities are carried out in third-party countries and at foreign locations of the Group, there are risks of social unrest, and economic and political instability. This may also involve nationalization proceedings relating to private assets.

A risk below the materiality threshold of € 0.5 million, a risk in the damage class 1 and probability class 2, and a risk in damage class 2 and probability class 3 were identified in this risk category for the Strategic Business Unit Plastics.

Furthermore, there is a general risk that unexpected fiscal risks may occur on account of the international alignment of the Group and the large number of subsidiaries. However, no individual fiscal risks have been identified in the SURTECO Group.

OVERALL RISK ASSESSMENTS

SURTECO regularly monitors the attainment of business targets and the risks and risk-limiting measures. The Board of Management and the Supervisory Board are informed of risks at an early stage. There are no risks which alone or in combination with other risks could pose a threat to the continued existence of the company as a going concern. Future risks posing a threat to the continued existence of the company as a going concern cannot currently be identified.

The analysis of all risks and opportunities leads to the conclusion that the material influencing factors for the business operations of the SURTECO Group come from the procurement markets and the framework conditions for the global economy and the sectors relevant to SURTECO. Consequently, the main potential for risk relates to an unexpected price increase or shortage of raw materials, and in a recession in the global economy or in individual markets and sectors relevant for SURTECO. By the same token, an economic upswing or more favourable purchasing conditions also offer the most significant opportunities for more positive business development at the SURTECO Group.

An overall assessment of all the risks and opportunities carried out in the business year 2017 indicated a significant easing of the weighted damage potential of all identified individual risks and opportunities compared with the previous year.

Nevertheless, the opportunities and risks described can exert a significant effect on the net assets, financial position and results of the Group's operations. Additional risks that are unknown at the moment and that are believed to be very low at the current point in time could also impact negatively on business activities.

IMF growth forecasts for 2018 in %

World	+3.9
Germany	+2.3
Eurozone	+2.2
United Kingdom	+1.5
USA	+2.7
Central and Eastern Europe	+4.0
Latin America	+1.9
Asien	+6.5

Source: International Monetary Fund (IMF), World Economic Outlook, Update January 2018.

Outlook report

Renewed substantial growth expected for the global economy in the year 2018

The global economy is once again projected to undergo significant growth in the course of this year with a plus of 3.9 %. This has been reported by the IMF in its current forecast in January 2018. While the developed economies are supposed to continue at the level of the previous year with 2.3 %, the emerging economies and developing countries at 4.9 % may still grow rather more strongly than this. The IMF is anticipating more moderate growth of 2.2 % for the eurozone compared with the previous year. The projection for the United Kingdom (+1.5 %) also assumes increasing negative effects entailed by Brexit. The US economy is expected to be driven by the comprehensive tax reform initiated at the beginning of 2018. This will enable it to expand more dynamically at 2.7 % than in 2017. While the reform is primarily intended to exert positive impacts on the US economy up until around 2020, this reform and the threat of US trade barriers continue to cause a high level of uncertainty for global trade. Nevertheless, economic growth in Asia is likely to remain at a high level of plus 6.5 % in 2017, whereas China at 6.6 % is projected to show a slight weakening again compared with 2017 (+6.8 %).[1]

Framework conditions for the SURTECO Group

The management believes that the projected global economic growth is likely to exert a positive effect on demand in our sectors. Experience indicates that rising economic output promotes demand and the readiness of consumers to invest in furniture, flooring and other articles manufactured using products from SURTECO. However, factors generating uncertainty continue to prevail across individual geographical markets as a result of unresolved issues relating to Brexit and political crises in some countries. Alongside cyclical sales development, the key influence on earnings continues to be the development of the price of raw materials. In the business year 2018, a significant rise in paper prices is in the pipeline while prices for plastics are likely to remain at the very high level. Currency effects are increasingly also emerging as an unpredictable and uncontrollable influencing factor for the development of earnings.

[1] Source: International Monetary Fund (IMF), World Economic Outlook, Update January 2018.

Sales forecast for the Group and Strategic Business Units

The management is anticipating moderate organic sales growth for the SURTECO Group for the business year 2018. For the first time, the sales revenues of the Probos Group will be contributing to business development for the entire year. The sales revenues of the Group as a whole – provided stable exchange rates prevail – will be in the range of € 725 million to € 750 million. Sales of the Strategic Business Unit Paper are likely to increase slightly and sales of the Strategic Business Unit Plastics will rise substantially as a result of the Probos Group.

Earnings for the Group and the Strategic Business Units

A significant increase in the cost of technical raw papers and chemical additives is anticipated in the Strategic Business Unit Paper. Additional productivity increases and increasing synergy effects arising from the concentration of decor paper production mean that the company is nevertheless anticipating a significant rise in the EBIT segment. EBIT for the Strategic Business Unit Plastics is also expected to rise significantly not least on the basis of the contribution to earnings of the Probos Group across the entire year. The company expects a renewed increase in the Group EBIT in the consolidated results from € 49 million to € 53 million.

Covenants

As in previous years, the company expects that the covenants will be complied with once more in the business year 2018.

Overall statement on expected performance

The framework conditions provide a platform for restrained optimism in relation to the operational business development of the Group companies. Furthermore, the companies of the Probos Group will be consolidated for an entire year in the business year 2018 for the first time while acquisition-related costs will be entirely eliminated.
However, the likely development continues to be subject to unpredictable upheavals that may arise from unexpected increases in the cost of raw materials or policy-related recessions in individual markets.

Compensation report

This report describes the compensation system for the Board of Management and the Supervisory Board, as well as explaining the structure and the level of compensation for individual executive officers. It takes into account the recommendations of the German Corporate Governance Code with the exception of the deviations published in the Declaration of Compliance and observes the requirements of the German Commercial Code (HGB) in the version of the Act on the Disclosure of Management Board Compensation, (VorstOG), and the Stock Corporation Act (AktG) in the version of the Act on the Appropriateness of Executive Compensation (VorstAG).

Compensation of the Board of Management

Definition and review of the compensation structure

The compensation structure and the level of compensation for the Members of the Board of Management are defined on the basis of the proposal of the Supervisory Board's Personnel Committee and are regularly reviewed. The existing compensation system guarantees a level of remuneration appropriate to the activity and responsibility of the Members of the Board of Management. Alongside the functions of the individual Members of the Board of Management and their personal performance, further factors taken into account include the economic situation, the success and future prospects of the company, and the commensurate nature of the compensation in view of the comparative environment and the compensation structure otherwise applicable within the SURTECO Group.

The Supervisory Board reviewed the compensation system with the assistance of external expert consultants, and has come to the conclusion that it complies with the applicable statutory regulations and the recommendations of the German Corporate Governance Code with the exception of the deviations published in the Declaration of Conformity.

The compensation system is described below for the reporting year.

Compensation elements

The total cash compensation is comprised of a fixed compensation (basic salary) that is independent of any performance element and a performance-based variable component (bonus). The compensation for Members of the Board of Management also includes non-cash benefits and other payments.

Basic salary

The relevant basic salary of the Members of the Board of Management is paid in equal monthly instalments. It amounts to € 360,000 p.a. for the Members of the Board of Management Dr.-Ing. Herbert Müller and Dr.-Ing. Gereon Schäfer, and € 200,000 p.a. for the Member of the Board of Management Andreas Riedl. Furthermore, none of the Members of the Board of Management has undertaken separately remunerated functions as executive officers at the consolidated subsidiary companies.

Awarded allowances
€ 000s
Fixed compensation
Fringe benefits
Total
Variable compensation for one year
Variable compensation over several years (target attainment dependent on the average bonuses of the past three years)
Total
Pension expenses
Total compensation

Cash inflow
€ 000s
Fixed compensation
Fringe benefits
Total
Variable compensation for one year
Variable compensation over several years (target attainment dependent on the average bonuses of the past three years)
Miscellaneous
Total
Pension expenses
Total compensation

The following tables show compensation for the Members of the Board of Management in accordance with the recommendations of the German Corporate Governance Code:

	Dr.-Ing. Herbert Müller Chairman, Group Strategy, Strategic Business Unit Plastics				**Andreas Riedl** Chief Financial Officer (CFO) from 1 July 2017				**Dr.-Ing. Gereon Schäfer** Strategic Business Unit Paper			
	2016	**2017**	**2017 (Min)**	**2017 (Max)**	**2016**	**2017**	**2017 (Min)**	**2017 (Max)**	**2016**	**2017**	**2017 (Min)**	**2017 (Max)**
	360	360	360	360	-	100	100	100	360	360	360	360
	49	49	0	[1]	-	18	0	[1]	35	40	0	[1]
	409	**409**	**360**	**[1]**	**-**	**118**	**100**	**[1]**	**395**	**400**	**360**	**[1]**
	781	679	0	[1]	-	222	0	[1]	650	561	0	[1]
	261	227	0	[1]	-	74	0	[1]	216	187	0	[1]
	1,451	**1,315**	**360**	**[1]**	**-**	**414**	**100**	**[1]**	**1,261**	**1,148**	**360**	**[1]**
	100	100	100	100	-	-	-	-	-	-	-	-
	1,551	**1,415**	**460**	**[1]**	**-**	**414**	**100**	**[1]**	**1,261**	**1,148**	**360**	**[1]**

[1] The fringe benefits as well as the variable compensation for the year and for several years, and consequently the overall compensation do not have an upper limit for the amount.

The following table shows the inflow (amount paid out) for the business years 2016 and 2017 from fixed remuneration, fringe benefits, variable compensation for the year and pension expenses.

	Dr.-Ing. Herbert Müller Chairman, Group Strategy, Strategic Business Unit Plastics		**Andreas Riedl** Chief Financial Officer (CFO) from 1 July 2017		**Dr.-Ing. Gereon Schäfer** Strategic Business Unit Paper	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
	360	360	100	-	360	360
	49	49	18	-	40	35
	409	**409**	**118**	**-**	**400**	**395**
	781	266[1]	-	-	650	214[1]
	[2]	[2]	[2]	-	[2]	[2]
	-	-	-	-		-
	1,190	**675**	**118**	**-**	**1,050**	**609**
	100	100	-	-	-	-
	1,290	**775**	**118**	**-**	**1,050**	**609**

[1] According to the resolution passed by the Supervisory Board on 30 June 2016, the compensation was defined notwithstanding the awarded allowances.
[2] In accordance with the compensation system applicable since 2015, compensation payable over several years will only be paid out after three years. See section on "Bonuses" in the Compensation Report for more information on this.

Bonuses

The applicable compensation system provides for variable bonuses, which the Supervisory Board defines at its discretion on the basis of the consolidated result before tax (EBT) – adjusted by additions/curtailments to be carried out as appropriate – in accordance with IFRS taking account of the return on sales. The correlation with a sustainable company performance and a basis of assessment over several years pursuant to § 87 (1) sentences 2 and 3 Stock Corporation Act (AktG) are guaranteed by the fact that 75 % of the bonus for the affected business year are paid in the following year and 25 % are retained without payment of interest. The retained 25 % are paid out after three years, and they are decreased or increased proportionately as a percentage if the average bonuses of the last three business years fall short of, or exceed, the bonuses of the third last business year. The retention cannot be a negative value. If a loss in the previous year has already reduced the ceiling of assessment, no retention is made. If a Board Member steps down from their office, the contracts of service make provision that the Board Member either (i) waits for the regular calculation of the retention after expiry of the reference period or (ii) the retention can be paid out with a flat-rate deduction of 10 % - the latter with the provision that the amount paid out may not be higher than the amount which was calculated for the last reference period.

Non-cash benefits and other payments

The Members of the Board of Management receive benefits in the form of non-cash benefits that fundamentally entail values to be recognized from the tax guidelines for use of a company car and various insurance premiums. Dr.-Ing. Herbert Müller also receives a limited supplement for accommodation in Buttenwiesen and reimbursement for the costs of a weekly journey home. He additionally receives an allowance amounting to € 000s 100 p.a. for his private retirement provision.

D&O insurance

A Directors' and Officers' Liability Insurance ("D&O" insurance) is provided for the Members of the Board of Management. Pursuant to the requirements of § 93 Section 2 Sentence 3 of the Stock Corporation Act (AktG), the excess (deductible) amounts to 10 % of the loss or damage up to an amount of one and a half times the fixed annual compensation of the Board Member.

Payments by third parties

During the business year under review, no Member of the Board of Management received payments or equivalent plan benefits from third parties (including companies with which the SURTECO Group maintains business relations) in relation to their activity as a Member of the Board of Management.

Loans to Members of the Board of Management

During the period under review, no advances or loans were granted to Members of the Board of Management of SURTECO SE.

Benefits for preliminary termination of employment

The contracts of service currently valid for the Members of the Board of Management automatically come to an end when the period of appointment for the relevant Member of the Board of Management is concluded. If the appointment of a Member of the Board of Management is revoked during the term of their contract of service, the Board Member affected can be placed on administrative leave for the remaining term of the contract and the compensation will continue to be paid. In each case, notice of termination can be served on the contracts of service by both sides for good cause. If a Member of the Board of Management is temporarily incapacitated and unable to work, the basic salary will be paid in the case of Dr. Müller for a period of up to 12 months and in the case of Mr. Riedl and Dr. Schäfer up to six months. If death occurs during the period of the employment relationship, the heirs of the relevant Board Member have the right to continued payment

Compensation for the Supervisory Board 2017:

in €	Total compensation 2016	Total compensation 2017	Basic salary	Compensation for work carried out on the Audit Committee
Dr.-Ing. Jürgen Großmann, Chairman	73,000	**73,000**	64,000	9,000
Björn Ahrenkiel, Vice Chairman	62,000	**60,000**	48,000	12,000
Dr. Markus Miele, Deputy Chairman	48,000	**48,000**	48,000	-
Dr. Christoph Amberger from 29 June 2017	-	**16,000**	16,000	-
Horst-Jürgen Dietzel until 29 February 2016	5,200	**-**	-	-
Markus Kloepfer until 29 June 2017	32,000	**16,000**	16,000	-
Jens Krazeisen from 29 February 2016	26,800	**32,000**	32,000	-
Wolfgang Moyses	32,000	**37,000**	32,000	5,000
Udo Sadlowski	32,000	**32,000**	32,000	-
Dr.-Ing. Walter Schlebusch	40,000	**40,000**	32,000	8,000
Thomas Stockhausen	32,000	**32,000**	32,000	-
Total	**383,000**	**386,000**	**352,000**	**34,000**

of the basic salary for the month in which death occurred and ongoing for a period up to an additional six months.

If there is a "change of control", the Board Member Dr.-Ing. Herbert Müller has the right within the space of 12 months to serve notice on his contract of service to the end of the month specified following the month of his submitting the notice of termination. He is entitled to payment of the outstanding fixed annual remuneration for the remaining term of the contract as a lump sum and an amount in the sum of € 500,000 for each year of the contract term commenced for which a bonus has not yet been paid. In accordance with subsection 4.2.3 of the German Corporate Governance Code, the obligation to make payments arising from the premature termination of the position as Member of the Board of Management shall not exceed 150 % of the cap for severance pay. There is no change of control clause for the Board Members Andreas Riedl and Dr.-Ing. Gereon Schäfer.

Compensation for the Supervisory Board

Compensation elements

The compensation for Members of the Supervisory Board is regulated in § 12 of the Articles of Association. Accordingly, the Members of the Supervisory Board receive, apart from reimbursement of their expenses, compensation payable after the business year has come to an end and after the resolution on the appropriation of the profit has been passed by the Annual General Meeting. The compensation is € 400.00 per eurocent dividend per share for the year for which compensation is paid, but a minimum of € 18,000.00. If the dividend exceeds 90 eurocents per share, the compensation per eurocent shall only be € 200.00 for the part of the dividend which exceeds 90 eurocents. The compensation increases by a factor of two times for the Chairman of the Board of Management and by one and a half times for each deputy chairman.

The members of the Audit Committee also receive a further remuneration amounting to a total of up to € 40,000.00 annually. The Supervisory Board decides on the amount and allocation of this further remuneration based on the proposal by the Audit Committee, at their discretion taking into account the time taken by each of the members of the Audit Committee to carry out their functions.

D&O insurance

A Directors' & Officers' liability insurance for purely financial losses ("D&O" insurance) is provided for Members of the Supervisory Board. The excess (deductible) amounts to € 50,000 for each insurance claim and year.

Other benefits

Members of the Supervisory Board receive no other amounts in remuneration above the compensation presented above or any other benefits for personally provided services, in particular for consultancy or mediation services.

Loans to Members of the Supervisory Board

During the period under review, no advances or loans were granted to Members of the Supervisory Board of SUR TECO SE.

Information pursuant to § 289a and § 315a German Commercial Code (HGB)

Capital stock

The subscribed capital (capital stock) of SURTECO SE is € 15,505,731.00 and is fully paid up. It is divided into 15,505,731 no-par-value bearer shares (ordinary shares) corresponding to a proportion of the capital stock of € 1.00 in each case. Each share guarantees one vote at the Annual General Meeting of the company. Apart from the statutory restrictions in certain cases, there are no restrictions on the voting right. There are no different categories of voting rights.

Power of the Board of Management to issue shares

The Board of Management is authorized to increase the capital stock of the company once or in partial amounts by up to € 1,500,000.00 overall with the consent of the Supervisory Board through the issue of no-par-value bearer shares, for a cash consideration (Authorized Capital I) and once or in partial amounts by up to € 6,200,000.00 overall through the issue of no-par-value bearer shares, for a cash consideration or non-cash contributions (Authorized Capital II). Further information on capital stock is provided in the notes to the consolidated financial statements (item 26) or in the notes of SURTECO SE (item 6).

Restrictions on voting rights and share transfers

The Board of Management is aware that shareholders of SURTECO SE have joined together to form an association under civil law entitled "Share pool SURTECO SE". The objective of this pool is to jointly exercise the voting rights of 5,846,475 no-par-value shares in SURTECO SE (status 31 December 2017). Dispositions over shares in SURTECO SE in the share pool are only permissible in accordance with the conditions of the pool agreement or with the consent of the other pool members.

Direct or indirect participations greater than 10 % of the voting rights

The following shareholders have notified us of a direct or indirect participation in our company that is greater than 10 % of the voting rights:

Name, place	Voting rights in %
Klöpfer & Königer Verwaltungs-GmbH, Garching, Germany	15.00

Appointment and dismissal of Members of the Board of Management

The appointment and dismissal of Members of the Board of Management is carried out pursuant to §§ 84 ff. Stock Corporation Act (AktG). Changes to the Articles of Association are made in accordance with the regulations of §§ 179 ff. Stock Corporation Act (AktG).

Separate non-financial Group Reporting

The Non-financial Group Reporting for the business year 2017 pursuant to § 315b German Commercial Code (HGB) is published on the Internet portal age of the company at www.ir.surteco.de.

Declaration on corporate governance

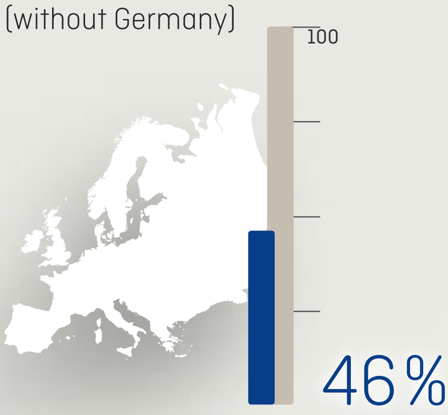
The Declaration on Corporate Management pursuant to § 289f German Commercial Code (HGB) in the form of the Corporate Governance Report including details on defining the promotion of women in management positions in accordance with § 76 (4) and § 111 (5) Stock Corporation Act, the description of the diversity concept in relation to the composition of the body authorized to represent the company and the Supervisory Board, the Declaration of Compliance with justification and archive, the information on the practices of company management, the composition and working methods of the Board of Management and the Supervisory Board including its committees, the Articles of Association (statutes), and the auditor for 2017, can be accessed on the home page of the company by going to www.ir.surteco.com and clicking on the menu item "Corporate Governance".

Dividend proposal

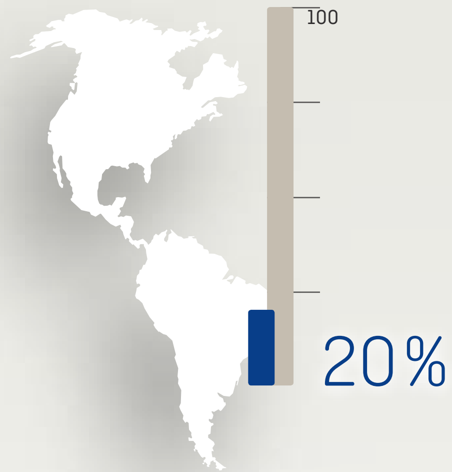
The Board of Management and Supervisory Board of SURTECO SE will recommend that the Annual General Meeting of the company to be held on 28 June 2018 in Munich adopt a resolution that the net profit of SURTECO SE amounting to € 12,404,584.80 should be distributed as follows: payment of a dividend per share amounting to € 0.80 (2016: € 0.80). This corresponds to a total amount distributed as dividend of € 12,404,584.80 for 15,505,731 shares.

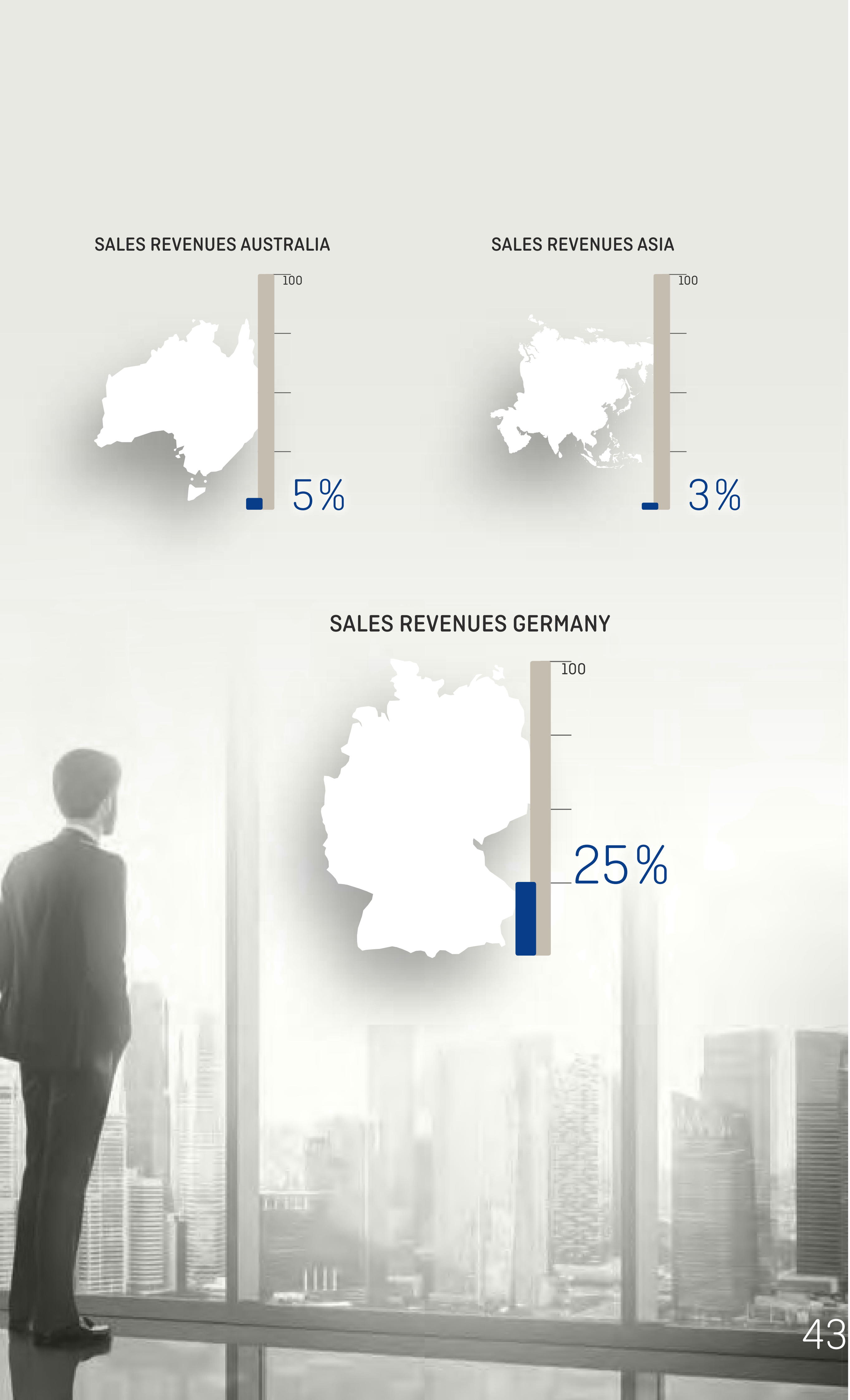
Percentage of total sales

SALES REVENUES EUROPE
(without Germany)



SALES REVENUES AMERICA




SALES REVENUES AUSTRALIA
100
5%
SALES REVENUES ASIA
100
3%
SALES REVENUES GERMANY
100
25%

Calculation of indicators

Cost of materials in %	Cost of materials/Total output
Debt-service coverage ratio in %	(Consolidated net profit + Depreciation and amortization)/Net debt
Dividend yield at year end in %	Dividend per share/Year-end share price
Earnings per share in €	Consolidated net profit/ Weighted average of the issued shares
EBIT margin in %	EBIT/Sales revenues
EBITDA margin in %	EBITDA/Sales revenues
Equity ratio in %	Equity/Total equity (= balance sheet total)
Free cash flow in €	Cash flow from current business operations – (Acquisition of property, plant and equipment + Acquisition of intangible assets + Acquisition of companies + Proceeds from disposal of property, plant and equipment + Dividends received)
Interest cover factor	EBITDA/(Interest income – Interest expenses)
Level of debt in %	Net debt/Equity
Market capitalization in €	Number of shares x Closing price on the balance sheet date
Net debt in €	Short-term financial liabilities and Long-term financial liabilities – Cash and cash equivalents
Personal expense ratio in %	Personnel expenses/Total output
Return on equity in %	Consolidated net profit/(Equity – non-controlling interests – Appropriation of profit)
Return on sales %	(Consolidated net profit + Income tax)/Sales revenues
Total return on total equity in %	(Consolidated net profit + Income tax + Interest expense)/Total equity (= Balance sheet total)
Value added in €	(Sales revenues + Other income) – (Cost of materials + Depreciation and amortization + Other expenses)
Value added ratio (net) in %	Value added (net)/Corporate performance
Working capital in €	(Trade accounts receivables + Inventories) – Trade accounts liabilities

THE SURTECO SHARE

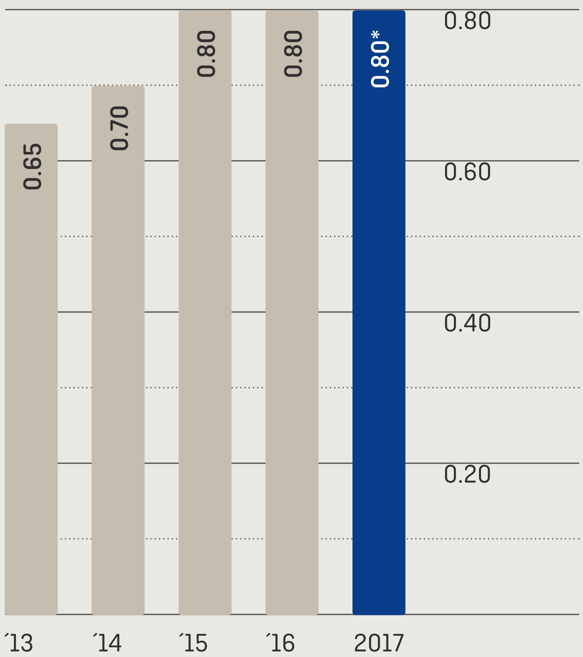
Share price performance 2017 in €

The German DAX lead index went up for the sixth time in succession during the course of 2017

The year 2017 was overall another good year for share owners. The German DAX lead index underwent an increase in price for the sixth year in succession. Already at the beginning of the year, share prices increased significantly on the back of a generally positive development of the global economy, a sustained policy of low interest rates and positive impulses, for example on the part of US tax policy and most company profits. This upward trend continued into June. During the period to almost the end of June, the DAX was one of the indexes already showing an increase of around 12 % compared with year-end 2016. On account of concerns relating to political tensions in the Far East – focused in particular on North Korea – and in the Middle East, the index levels continued consolidation into September. After that, the positive economic signals and hopes of stimuli in relation to these from the USA gained the upper hand. At the beginning of November, the DAX reached its high for the year and indeed a new historic record high at a level of more than 13,500 points. In the USA, this trend continued until the end of the year. Further highs were posted except for the end of the year, finishing just below the threshold of 25,000 points. This corresponded to an annual performance of 24 %. European stock exchanges also went up. While the EURO STOXX 50 ended the year with a comparatively modest increase of less than 7 % as a result of the ongoing weakness of banking stocks, the DAX showed strength in a twelve-month comparison of plus 13 %. The German indexes of smaller cap stocks fared even better: MDAX plus 18 % and SDAX plus 25 %.

SURTECO shareholders were able to achieve performance of 17 % in 2017

The SURTECO share went into the new year 2017 with a volatile price below € 24. At the beginning of the year, the share initially fell back slightly by comparison with year-end 2016, but it went on to increase significantly again in mid-February. Following on from some volatility within a tight price corridor, the share reached its low for the year of € 22.40 on 8 May 2017. The ceiling of this initially rather negative trend was broken through with the announcement of the figures for the first quarter of 2017 in mid-May. On the basis of a positive outlook for the year 2017 overall and a sound development of earnings, the confidence of the capital market was strengthened and this resulted in a significant recovery in demand. This peaked in a nine-month high of € 26.25 on 21 September 2017, once again followed by profit-taking upon which the price fell back to around € 24. On the back of the positive mood following publication of the figures at the end of the third quarter, the SURTECO price underwent a year-end rally in November. During the course of this rally, the share achieved a high for the year of € 27.65 on 24 November 2017. At the end of the year, the stock ultimately stabilized at a solid level of around € 27 and ended the year with a significant rise of 14 % and a price of € 26.90. Including the dividend amounting to € 0.80 paid out at the end of June, the shareholders of the company consequently achieved overall performance of 17 % over the reporting year.



Development of the dividend 2013 - 2017 in €

* (Proposal by the Board of Management and the Supervisory Board)

Market capitalization undergoes significant growth

In view of the very positive share price development, most particularly at the end of the year, the market capitalization of the SURTECO Group rose significantly from € 367 million at year-end 2016 to around € 417 million on 31 December 2017. The number of shares and the free float remained constant at the year-earlier level at 15,505,731 or 44.5 % no-par-value shares. 55.5 % of the shares are currently in the hands of the founding shareholders of SURTECO SE.

Payout ratio of 47 %

SURTECO is a dividend stock which enables its shareholders to have an appropriate share in the success of the enterprise. The Board of Management and the Supervisory Board will therefore submit a proposal for approval by the shareholders at the Annual General Meeting to be held in Munich on 28 June 2018 to pay a stable dividend of € 0.80 per share. The company will therefore distribute around 47 % of the Group net profit. Based on the closing price for the share at the end of 2017, the proposed dividend represents a dividend yield of 3.0 %.

Close dialogue with all institutional and private investors

Detailed dialogue in an atmosphere of trust is a top priority for the Board of Management of SURTECO SE. In 2017, SURTECO once again primarily engaged in dialogue with institutional shareholders by participating in a large number of roadshows and investor meetings in Germany and abroad. During the course of the reporting year, SURTECO was regularly tracked and evaluated by two share research analysts (Berenberg Bank, equinet Bank AG). Alongside regular exchange through the Investor Relations Department on a daily basis, the highpoint of communication with private investors was once more undoubtedly the Annual General meeting held in Munich on 29 June 2017. The Board of Management also focuses on close and regular communication with the financial media. This communication was once again intensified in the form of interviews and press roadshows in the reporting year.

All information on the company can be found on the Internet pages of SURTECO SE (www.ir.surteco.de). The Investor Relations Department of the company can be contacted directly at any time and will be pleased to address any questions and ideas you may have on matters you wish to discuss:

Investor Relations and Press Office
Johan-Viktor-Bausch-Str. 2
86647 Buttenwiesen-Pfaffenhofen
Germany

Phone: +49 82 74/99 88-508
Fax: +49 82 74/99 88-515
Email: ir@SURTECO.com

SURTECO shares (Close price XETRA)

€	2016	2017
Number of shares at 31 December	15,505,731	**15,505,731**
Price at start of year	20.78	**24.22**
Year-end price	23.67	**26.90**
Price per share (high)	23.85	**27.65**
Price per share (low)	17.60	**22.40**
Stock-market turnover in shares per month	302,543	**264,503**
Market capitalization at year-end in € million	367.0	**417.1**
Free float in %	44.5	**44.5**

Shareholder indicators for the SURTECO Group

€ million	2016	2017
Sales	639.8	**689.7**
EBITDA	74.3	**83.1**
EBIT	40.9	**44.7**
EBT	35.0	**33.5**
Consolidated net profit	23.9	**26.2**

Shareholder indicators of the SURTECO Group per share

€	2016	2017
Earnings (by weighted average of shares issued)	1.54	**1.69**
Dividend	0.80	(Proposal by the Board of Management and Supervisory Board) **0.80**
Dividend yield at year-end in %	3.4	**3.0**

Indicators of the share

Type of security	No-par-value share
Market segment	Official market, Prime Standard
WKN	517690
ISIN	DE0005176903
Ticker symbol	SUR
Reuters' ticker symbol	SURG.D
Bloomberg´s ticker symbol	SUR
Date of first listing	2/11/1999

CONSOLIDATED FINANCIAL STATEMENTS 2017

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE BUSINESS YEAR 2017

Consolidated Income Statement

€ 000s	Notes	1/1/-31/12/ 2016	1/1/-31/12/ 2017
Sales revenues	(1)	**639,815**	**689,651**
Changes in inventories	(2)	5,379	-1,882
Other own work capitalized	(3)	3,942	5,130
Total output		**649,136**	**692,899**
Cost of materials	(4)	-324,581	-335,034
Personnel expenses	(5)	-157,995	-174,513
Other operating expenses	(6)	-98,672	-104,776
Other operating income	(7)	6,450	4,517
EBITDA		**74,338**	**83,093**
Depreciation and amortization	(16)	-33,461	-38,423
EBIT		**40,877**	**44,670**
Interest income		702	646
Interest expenses		-8,794	-8,357
Other financial expenses and income		1,857	-3,857
Share of profit of investments accounted for using the equity method		395	413
Financial result	(8)	-5,840	-11,155
EBT		**35,037**	**33,515**
Income tax	(9)	-11,263	-7,188
Net income		**23,774**	**26,327**
Of which:			
Owners of the parent (consolidated net profit)		23,867	26,192
Non-controlling interests		-93	135
Basic and diluted earnings per share (€)	(10)	1.54	1.69
Number of shares at 31 December		15,505,731	15,505,731

Statement of Comprehensive Income

€ 000s		1/1/-31/12/ 2016		1/1/-31/12/ 2017
Net income		**23,774**		**26,327**
Components of other comprehensive income not to be reclassified to the income statement				
Remeasurements of defined benefit obligations	-317		-100	
of which included deferred tax	110		38	
Other changes*	0		116	
		-207		**54**
Components of other comprehensive income that may be reclassified to the income statement				
Net gains/losses from hedging of net investment in a foreign operation	-746		-475	
of which included deferred tax	216		142	
Exchange differences translation of foreign operations	-859		-7,872	
Financial instruments available-for-sale				
Fair valuation of cash flow hedges	-374		-42	
of which including deferred tax	109		12	
Reclassification amounts in the income statement	-182		-79	
of which included deferred tax	53		23	
	-1,784		**-8,291**	
Other comprehensive		**-1,991**		**-8,237**
Comprehensive income		**21,783**		**18,090**
Owners of the parent (consolidated net profit)		21,743		18,012
Non-controlling interests		40		78

* Adjustment of the value carried forward according to expert opinion

Consolidated Balance Sheet

€ 000s	Notes	31/12/2016	31/12/2017
ASSETS			
Cash and cash equivalents	(11)	60,416	133,373
Trade accounts receivable	(12)	52,072	57,826
Receivables from affiliated enterprises		626	731
Inventories	(13)	119,596	119,732
Current income tax assets	(14)	2,318	1,377
Other current non-financial assets	(15)	6,607	9,457
Other current financial assets	(15)	19,650	3,666
Current assets		**261,285**	**326,162**
Property, plant and equipment	(17)	245,628	258,208
Intangible assets	(18)	34,109	66,676
Goodwill	(19)	118,828	163,303
Investments accounted for using the equity method	(20)	1,694	1,988
Financial assets	(20)	21	830
Other non-current non-financial assets		0	69
Other non-current financial assets	(24)	5,778	6,333
Deferred taxes	(9)	6,526	19,027
Non-current assets		**412,584**	**516,434**
		673,869	**842,596**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Short-term financial liabilities	(24)	72,357	5,656
Trade accounts payable		48,888	63,174
Liabilities from affiliated enterprises		0	3
Income tax liabilities	(21)	2,639	3,154
Short-term provisions	(22)	3,583	3,966
Other current non-financial liabilities	(23)	2,655	4,241
Other current financial liabilities	(23)	21,650	26,234
Current liabilities		**151,772**	**106,428**
Long-term financial liabilities	(24)	123,629	317,662
Pensions and other personnel-related obligations	(25)	13,030	12,814
Other non-current non-financial liabilities		0	41
Other non-current financial liabilities	(24)	4,300	4,372
Deferred taxes	(9)	34,586	52,043
Non-current liabilities		**175,545**	**386,932**
Capital stock		15,506	15,506
Capital reserve		122,755	122,755
Retained earnings		181,436	181,861
Consolidated net profit		23,867	26,192
Capital attributable to owners of the parent		**343,564**	**346,314**
Non-controlling interests		2,988	2,922
Equity	(26)	**346,552**	**349,236**
		673,869	**842,596**

Consolidated Cash Flow Statement

€ 000s	Notes	1/1/-31/12/ 2016	1/1/-31/12/ 2017
Earnings before income tax		**35,037**	**33,515**
Payments for income tax		-4,091	-9,214
Reconciliation to cash flow from current business operations:			
- Depreciation and amortization on property, plant and equipment	(16)	33,461	38,423
- Interest income and result for investments	(8)	8,092	8,447
- Gains/losses from the disposal of fixed assets		695	-58
- Change in long-term provisions		280	-216
- Other expenses/income with no effect on liquidity		-377	-9,709
Internal financing		**73,097**	**61,188**
Increase/decrease in			
- Trade accounts receivable	(12)	7,721	-5,859
- Other assets		-3,122	6,753
- Inventories	(13)	-5,097	-136
- Accrued expenses		-4,616	383
- Trade accounts payable		-1,209	14,289
- Other liabilities		-8,403	6,283
Change in assets and liabilities (net)		**-14,726**	**21,713**
CASH FLOW FROM CURRENT BUSINESS OPERATIONS	(31)	**58,371**	**82,901**
Acquisition of business		-23,453	-82,829
-net of cash acquired		2,066	8,699
Purchase of property, plant and equipment	(17)	-31,458	-40,807
Purchase of intangible assets	(18)	-3,016	-1,900
Proceeds from the disposal of property, plant and equipment		91	530
Dividends received from investments accounted for using the equity method		241	415
Disposal of investments		1,200	406
CASH FLOW FROM INVESTMENT ACTIVITIES	(31)	**-54,329**	**-115,486**
Dividend paid to shareholders	(26)	-12,405	-12,405
Proceed of long-term financial liabilities	(30)	16,476	201,328
Repayment of long-term financial liabilities	(30)	0	-1,920
Changes in short-term financial liabilities	(30)	-5,744	-72,076
Interest received	(8)	702	644
Interest paid	(8)	-7,651	-9,067
CASH FLOW FROM FINANCIAL ACTIVITIES	(31)	**-8,622**	**106,504**
Change in cash and cash equivalents		**-4,580**	**73,919**
Cash and cash equivalents			
1 January		65,654	60,416
Effect of changes in exchange rate on cash and cash equivalents		-658	-962
31 December	(11)	**60,416**	**133,373**

Consolidated Statement of Changes in Equity

€ 000s	Capital stock	Capital reserve	Retained earnings				Consolidated net profit	Noncontrolling interests	Total
			Fair value measurement for financial instruments	Other comprehensive income	Currency translation adjustments	Other retrained earnings			
1 January 2016	**15,506**	**122,755**	**481**	**-1,770**	**822**	**178,631**	**17,721**	**235**	**334,381**
Net income	0	0	0	0	0	0	23,867	-93	23,774
Other comprehensive income	0	0	-395	-207	-1,442	0	0	53	-1,991
Comprehensive income	**0**	**0**	**-395**	**-207**	**-1,442**	**0**	**23,867**	**-40**	**21,783**
Dividend payout SURTECO SE	0	0	0	0	0	0	-12,405	0	-12,405
Allocation to retained earnings	0	0	0	0	0	5,316	-5,316	0	0
Changes in consolidated companies	0	0	0	0	0	0	0	2,793	2,793
Changes in equity	**0**	**0**	**0**	**0**	**0**	**5,316**	**-17,721**	**2,793**	**-9,612**
31 December 2016	**15,506**	**122,755**	**86**	**-1,977**	**-620**	**183,947**	**23,867**	**2,988**	**346,552**
1 January 2017	**15,506**	**122,755**	**86**	**-1,977**	**-620**	**183,947**	**23,867**	**2,988**	**346,552**
Net income	0	0	0	0	0	0	26,192	135	26,327
Other comprehensive income	0	0	-86	54	-8,148	0	0	-57	-8,237
Comprehensive income	**0**	**0**	**-86**	**54**	**-8,148**	**0**	**26,192**	**78**	**18,090**
Dividend payout SURTECO SE	0	0	0	0	0	-12,405	0	0	-12,405
Allocation to retained earnings	0	0	0	0	0	23,867	-23,867	0	0
Changes in consolidated companies	0	0	0	0	0	0	0	-144	-144
Other changes	0	0	0	0	0	-2,857	0	0	-2,857
Changes in equity	**0**	**0**	**0**	**0**	**0**	**8,605**	**-23,867**	**-144**	**-15,406**
31 December 2017	**15,506**	**122,755**	**0**	**-1,923**	**-8,768**	**192,552**	**26,192**	**2,922**	**349,236**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SURTECO SE
for the Business Year 2017

I. Accounting Principles

SURTECO SE is a company listed on the stock exchange under European law. The company is based in Buttenwiesen-Pfaffenhofen, Germany and is registered in the Company Register of the Local Augsburg Court (Amtsgericht Augsburg) under HRB 23000. The purpose of the companies consolidated in the SURTECO Group is the development, production and sale of coated surface materials based on paper and plastic.

The consolidated financial statements of SURTECO SE and its subsidiaries for the fiscal year 2017 have been prepared in accordance with the regulations of the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) applicable on the balance-sheet date, as they were adopted by the EU, taking into account the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the regulations to be applied in addition pursuant to § 315e (1) German Commercial Code (HGB). New standards adopted by the IASB will be applied after they have been adopted by the EU from the date on which they are first mandatory. Application and change to the valuation and accounting methods will be explained under the appropriate items in the Notes to the Consolidated Financial Statements as necessary.

Pursuant to § 315e German Commercial Code (HGB), the consolidated financial statements have been drawn up in accordance with Clause 4 of Directive (EU) No. 1606/2002 of the European Parliament and the Council dated 19 July 2002 relating to application of the International Accounting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB) and were supplemented by specific information and the consolidated management report, and were adjusted in conjunction with § 315e.

The consolidated financial statements have been drawn up in the reporting currency euros (€). Unless otherwise indicated, all amounts have been given in thousand euros (€ 000s).

The balance sheet date of SURTECO SE and the consolidated subsidiaries is 31 December 2017.

The consolidated financial statements and the consolidated management report for 2017 will be published in the Federal Gazette (Bundesanzeiger).

Some items in the consolidated income statement and the consolidated balance sheet for the Group have been combined and stated separately in the Notes to the Consolidated Financial Statements. This is intended to improve the clarity and informative nature of presentation. The income statement has been drawn up in accordance with the cost of production method.

The auditors PricewaterhouseCoopers GmbH and other appointed auditing companies have essentially audited the financial statements or the sub-groups that form part of the consolidated financial statements.

The consolidated financial statements of SURTECO SE for the fiscal year 2017 were prepared on 25 April 2018 and forwarded to the Supervisory Board for auditing. The Supervisory Board has the function of auditing the consolidated financial statements and declaring whether it approves the consolidated financial statements. The Supervisory Board is to approve the consolidated financial statements at the meeting on 25 April 2018. The Board of Management will then release the statements for publication.

II. Accounting Principles in accordance with the International Financial Reporting Standards

Change in accounting and valuation methods

The accounting and valuation methods correspond to the methods applied in the previous year.

Accounting standards and interpretations applied

During the business year revised standards and interpretations were applied for the first time. They give rise to no material effects on the net assets, financial position and results of operations.

Individual standards were changed in the course of the Annual Improvement Procedure (AIP 2014-2016). No material effects result from the application of these changes in the SURTECO Group.

Standard/Interpretation		Application, obligation to apply for the business years on or from	Adoption by the EU Commission	Expected effects on SURTECO
IAS 12 (A)	Recognition of deferred tax assets for unrealized losses	1/1/2017	yes	no material effects
IAS 7 (A)	Disclosure initiative: Expanded disclosures for cash flow from financial activity in the cash flow statement	1/1/2017	yes	no material effects

International financial reporting standards and interpretations that have been published and have to be applied in the future

The following new and revised standards and interpretations, which were not yet mandatory during the reporting period or had not yet been adopted by the European Union, are not being applied in advance.

Individual standards were changed in the framework of Annual Improvement Projects (AIP 2014-2016 and AIP 2015-2017). SURTECO SE is investigating the resulting effects on the consolidated financial statements.

Standard/Interpretation		Application, obligation to apply for the business years on or from	Adoption by the EU Commission	Expected effects on SURTECO
IFRS 9	Financial instruments	1/1/2018 *	Yes	yes
IFRS 15	Revenue from contracts with customers	1/1/2018	Yes	no material effects
IFRS 16	Leasing	1/1/2019	yes	currently being analysed
IFRS 10 (A) / IAS 28 (A)	Clarifications on interests in associates and joint ventures	1/1/2018 *	no	none
IFRS 2 (A)	Classification and measurement of Share-based payment transactions	1/1/2018 *	no	none
IFRS 4 (A)	Application of IFRS 9 with IFRS 4 Insurance contracts	1/1/2018	yes	none
IAS 28 (A)	Clarification to long-term interests in associates and joint ventures	1/1/2019 *	no	none
IFRS 17	Insurance contracts	1/1/2021 *	no	yes
Changes due to the Annual Improvement Projects (AIP 2014-2016)				
IFRS 1 (A)	Additional exemptions for first-time adoption of IFRS: removal of time-limited exemptions	1/1/2018 *	no	none
IAS 40 (A)	Transfers of property held as a financial investment	1/1/2018	yes	none
IFRIC 22	Foreign currency transactions and advance payments	1/1/2018 *	no	none
IFRIC 23	Uncertainty over income tax treatments	1/1/2019 *	no	currently being analysed
(A) Amended				
(R) Revised				

* Date of first-time application in accordance with IASB-IFRS (since these regulations have not yet been adopted in EU law)

The following accounting principles published by the IASB do not yet have to be applied mandatorily and they have also not yet been applied by the SURTECO Group.

In July 2014, the IASB published IFRS 9 Financial Instruments. IFRS 9 introduced a uniform approach to the classification and valuation of financial assets. The application of IFRS 9 will exert effects on the classification and valuation of financial assets and financial liabilities as a result of the introduction of the new valuation categories. The underlying principles of the standard are the payment flow characteristics and the business model according to which they are controlled. Depending on the manifestation of these characteristics, a valuation results for amortized acquisition costs or for fair value, whereby changes are either recorded in the Other Comprehensive Income (OCI) or as profit or loss. In the SURTECO Group, debt and equity instruments are also identified as well as derivatives. The debt instruments are essentially allocated to the business model "Hold" and are consequently measured at amortized acquisition costs. The identified equity instruments are essentially measured at fair value and their changes in value are recorded in the profit and loss for the period. In relation to financial liabilities, the existing standards are conversely largely maintained in IFRS 9. A further innovation relates to financial liabilities with the fair value option, which is not exercised in the SURTECO GROUP.

The impairments on financial assets, in particular trade accounts receivable, will not change significantly compared with the existing allowances on the date of first-time application of IFRS 9 although they will have to be recorded already on the date of creation as a result of the new impairment model.

IFRS 9 also includes new regulations on the application of hedge accounting in order to provide an improved presentation of the risk management activities of a company, particularly in relation to the control of non-financial risks. The company management is assuming that the existing hedge accounting will continue to be presented as a hedge even in accordance with IFRS 9. Derivatives held for trading purposes and standalone derivatives will continue to be measured at fair value. The SURTECO Group already exercised the option under IAS 39 and transfers profits and losses arising from effective cash flow hedges into the book values of non-financial underlying transactions at the date of their first-time application, which is now obligatory under IFRS 9. Apart from this, the company is not assuming that the application of IFRS 9 will exert significant effects on the consolidated financial statements regarding the reporting of hedge accounting.

The new standard applies to business years which start on or after 1 January 2018. Prior application is permitted. The SURTECO Group will apply IFRS 9 for the first time in the business year beginning on 1 January 2018 with retrospective effect under application of simplification options.

In May 2014, the IASB published IFRS 15 Revenue from Contracts with Customers. According to the new standard, the recognition of revenues should reflect the transfer of the promised goods or services to the customer in an amount which reflects the consideration to which the company expects to be entitled in exchange for these goods or services. IFRS 15 defines a five-step model which shall be applied to all contracts with customers and is organized as follows:

- Step 1: Identification of the customer contract
- Step 2: Identification of separate performance obligations
- Step 3: Identification of the transaction price
- Step 4: Allocation of the transaction price to individual performance obligations
- Step 5: Recognition of revenues in fulfilment of performance obligations

Revenues are recognized when the customer receives the control of the goods or services. The SURTECO Group generates revenues from the sale of goods in the plastics and paper sector. Furthermore, IFRS 15 includes regulations of the recognition of performance surpluses or obligations existing at contract level. This relates to assets and liabilities arising from customer contracts depending on the relationship of the performance provided by the company and the payment made by the customer.

IFRS 15 replaces IAS 11, Construction Contracts, and IAS 18 Revenue, and the associated interpretations. The standard has to be applied for the first time in business years which begin on or after 1 January 2018. The SURTECO Group will apply the standard retrospectively. In the business year 2018, qualitative and quantitative disclosures on contracts with customers, on important decisions of judgment and possible changes to these contracts due to the new regulations for revenue accounting, on any capitalized asset being generated from costs for obtaining and fulfilling a contract with a customer, have to be provided. In all material respects, the introduction of IFRS 15 is expected not to have any major impacts on the accounting of the SURTECO Group as the subsidiary companies employ the business models (production and sales). Items were identified for which IFRS 15 no longer includes any options. This however does not have any major effects on the consolidated financial statements of the SURTECO Group. Apart from the requirement to prepare extensive disclosures for the revenues arising from contracts with customers, the company management is not assuming that the application of IFRS 15 will exert any material impacts on the consolidated balance sheet and/or the consolidated statement of comprehensive income.

In January 2016, the IASB published IFRS 16 Leases. IFRS 16 abolishes the existing classification of leasing contracts on the lessee side in operating and finance leasing arrangements. IFRS 16 introduces a lessee accounting model, according to which the lessee is obliged to recognize assets (for the right of use) and leasing liabilities in case there are leasing contracts over a period of more than twelve months. In future, this will result in leasing arrangements that have so far not been reported having to be recognized in the balance sheet. The previous differentiation into rental leasing and finance leasing is therefore discontinued for lessees. Disclosure obligations are also more complex.

IFRS 16 applies to business years which start on or after 1 January 2019. The standard will not be applied in advance. On 31 December 2017, there were payment obligations arising from non-cancellable rental leases. A preliminary assessment indicates that these agreements meet the criteria of a leasing agreement in accordance with IFRS 16 and the SURTECO Group therefore has to report corresponding assets and liabilities as soon as IFRS 16 is applied, unless in individual cases the Group makes use of the exceptions for current leases or low-value assets. As the application of the new standard could have a considerable effect on the consolidated financial statements, the executive management is currently evaluating the potential impacts. A reliable estimate for the amount of the financial effect can only be provided after this review has been concluded. In the case of finance leases with the SURTECO Group as the lessee, assets and liabilities are already reported. In these cases and for leases where the Group acts as a lessor, the executive management is not assuming substantial impacts on the consolidated financial statements resulting from the application of IFRS 16.

III. Consolidated Companies

SURTECO SE and all significant companies (including special-purpose entities), in which SURTECO SE has a controlling influence, are included in the consolidated financial statements as of 31 December 2017. Control exists if SURTECO SE has a right to receive variable returns based on the relationship with a company and possesses power of disposal over the company. The term "power" implies that SURTECO SE has existing rights enabling it to direct the relevant activities of the company and thus exert a significant influence on the variable returns. The ability to control another company generally derives from direct or indirect ownership of a majority of the voting rights. Within structured entities, control usually derives from contractual agreements. The financial statements of subsidiary companies are included in the consolidated financial statements from the point in time at which control exists until it is no longer possible to exercise such control.

Investments in associates in which the SURTECO Group exerts a significant influence (generally through a shareholding of 20 % to 50 %) and investments in joint ventures are valued according to the equity method.

As of the balance sheet date, two companies are not included in the consolidated financial statements (2016: three companies) as there were only minimal business activities in the course of the year under review and the influence of its aggregate value on the true and fair view of the net assets, financial positions and results of operations of the Group was not significant.

Alongside SURTECO SE, the following companies are included in the consolidated financial statements for the Group:

	31/12/2016	Changes due to IFRS standards	Additions	Disposals Restructuring in the Group	Sales / Liquidation	31/12/2017
Consolidated subsidiaries						
- of which in Germany *	10	0	1	0	0	11
- of which abroad	26	0	5	0	-1	30
Subsidiaries reported at acquisition costs						
- of which in Germany	0	0	0	0	0	0
- of which abroad	3	0	1	0	-2	2
Companies accounted for using the equity method						
- of which in Germany	0	0	0	0	0	0
- of which abroad	1	0	0	0	0	1
	40	**0**	**7**	**0**	**-3**	**44**

* of which 2 special-purpose entities

The companies included in the consolidated financial statements as of 31 December 2017 and disclosures on subsidiaries and participations held directly and indirectly by SURTECO SE are included in the list under "SURTECO Holdings". The annual financial statements and the management report of SURTECO SE for the business year 2017 are submitted to the Federal Gazette (Bundesanzeiger) and published there.
In relation to additions to the consolidated companies, we refer to section IV. In the business year 2017, the following disposals were recognized within the SURTECO Group:

- Liquidation of Decorative Material (Taicang) Co. Ltd. (not consolidated)
- Liquidation of Edging Plus Inc. (not consolidated)
- Sale of Canplast Sud Ltd. (consolidated)

These disposals exerted no significant influence on the net assets, financial position and results of operations of the SURTECO Group.

IV. Business Combinations

With effect from 23 June 2017, Döllken - Kunststoffverarbeitung GmbH, Gladbeck, acquired 100% of the shares of Global Abbasi, S.L, Spain, and therefore gained control of this company and its subsidiary companies (hereinafter referred to as: Probos Group).
As a result of the acquisition, the following companies within the Probos Group were included for the first time in the consolidated financial statements of SURTECO SE:

- Global Abbasi, S.L., Madrid, Spain
- Probos - Plásticos, S. A., Mindelo, Portugal
- Proadec Brasil Ltda., Sao José dos Pinhais, Brazil
- Chapacinta, S. A. de C. V., Tultitlán, Mexico
- Proadec UK Ltd., Greenhithe (Kent), United Kingdom
- Proadec Deutschland GmbH, Bad Oeynhausen, Germany
- Edging Plus Inc., Greensboro, USA[1]

1) Not consolidated; liquidation of the company on 28 December 2017.

The Probos Group is specialized in the production and distribution of edgebandings on the basis of plastics. The takeover of these companies mainly serves the purpose to strengthen the market presence of SURTECO SE in the plastics sector in Portugal and in South and Central America.

The total purchase price paid for 100% of the shares in the company amounted to € 000s 82,829. The acquisition was financed using borrowings.

The companies within the Probos Group are included in the consolidated financial statements of SURTECO SE according to the method of full consolidation.

In accordance with the requirements of IFRS 3 "Business Combinations", all assets, liabilities and contingent liabilities were measured at their respective fair value using the acquisition method.

The following overview provides a summary of the purchase price of the company and the acquired assets and liabilities of the Probos Group measured at their acquisition-date fair values.

[€ 000s]	
Cash and cash equivalents	8,699
Trade accounts receivable	13,640
Inventories	9,431
Income tax assets	42
Other current assets	1,249
Property, plant and equipment	17,353
Customer base	31,253
Brand name	3,421
Technology	5,079
Other intangible assets	154
Financial investments	11
Other non-current assets	228
Deferred tax assets	6
ASSETS	**90,566**
Current financial liabilities	2,124
Trade accounts payable	13,596
Income tax liabilites	667
Other current liabilities	4,041
Non-current financial liabilities	20,072
Other non-current liabilities	59
Deferred tax liabilities	12,548
LIABILITIES	**53,107**
Net assets acquired	**37,459**
Total purchase price (100%)	**82,829**
Difference	**45,370**

The resulting positive difference was reported separately as goodwill. The recording of the goodwill essentially results from expected synergies derived from the joint activities of SURTECO and the Probos Group, and from anticipated contributions to the increase of the profitability and corporate value mainly resulting from the acquisition.

The following table shows the actual sales revenues and earnings generated by the Probos Group since being included in the consolidated financial statements of SURTECO SE at the date of acquisition (effects on earnings resulting from the purchase price allocation are included):

Probos Group 1 July to 31 December 2017

[€ 000s]	1/7/ – 31/12/2017
Sales revenues	36,858
Contribution to the consolidated earnings	2,452

The following table sets forth how the sales revenues and earnings of the merged company would have developed if the acquisition had already taken place on 1 January 2017 (pro-forma results including the effects on earnings resulting from the purchase price allocation):

Probos Group pro-forma disclosures 1 January to 31 December 2017

[€ 000s]	1/1/ – 31/12/2017
Sales revenues	74,171
Contribution to the consolidated earnings	4,192

V. Use of § 264 (3) German Commercial Code (HGB)

The exemption clauses pursuant to § 264 (3) German Commercial Code (HGB) were applied for the following subsidiary companies included in the consolidated financial statements in order to provide them exemption from the requirement to draw up their respective management report and notes, and to audit and to disclose their annual financial statements:

Name	Registered office
SURTECO DECOR GmbH	Buttenwiesen-Pfaffenhofen
SURTECO art GmbH	Willich
Dakor Melamin Imprägnierungen GmbH	Heroldstatt
BauschLinnemann GmbH	Sassenberg
Kröning GmbH	Hüllhorst
Döllken-Kunststoffverarbeitung GmbH	Gladbeck
Döllken-Profiltechnik GmbH	Dunningen
Döllken Profiles GmbH (formerly: Döllken-Weimar GmbH)	Nohra

VI. Consolidation Principles

The financial statements included in the consolidation process have been prepared on the basis of the accounting and valuation principles uniformly applicable – which have remained fundamentally unchanged by comparison with to the previous year – to the SURTECO Group.

The consolidated financial statements have been prepared on the basis of historic acquisition and production cost, with the exception of measuring derivative financial instruments and financial assets available for sale at their fair value or market value.

The balance sheet date of the consolidated financial statements coincides with the balance sheet date of the individual companies included in the consolidated financial statements (31 December 2017).

The accounting of business combinations is carried out by the acquisition method. The purchase costs of the acquisition correspond to the fair value of the assets provided, the equity instruments issued, and the liabilities incurred or taken over on the date of exchange. Assets, liabilities and contingent liabilities identified within the course of a first-time business combination were measured at their acquisition-date fair values. For each business acquisition, the Group decides on an individual basis whether the non-controlling shares in the acquired company should be recognized at their respective fair value or on the basis of their proportion in the net assets of the acquired company. Costs relating to the acquisition are charged to expenses at the time they occur.

Any remaining positive netting difference between the purchase price and the identified assets and liabilities is recognized as goodwill. Any remaining negative difference is recognized as profit or loss in the income statement.

Goodwill arising from the acquisition of a subsidiary company or business operation are recognized separately in the balance sheet.

The shares in equity capital of subsidiary companies not attributable to the parent company are recognized in the consolidated equity capital as "non-controlling interests". Currently existing non-controlling interests were measured on the basis of the proportionate net assets.

In accordance with IFRS 3 and in conjunction with IAS 36, goodwill arising from company acquisitions is not subject to scheduled amortization, but is subject to an annual impairment test if there are any indications of declines in value.

An associated enterprise is a company over which the Group can exert a significant influence by influencing the finance and business policy but where the Group does not exercise control. A significant influence is assumed if the Group has a share of the voting rights amounting to 20 % or more. Investments in associated enterprises are measured using the equity method.

The SURTECO Group has an investment in one company under jointly managed agreements. In accordance with IFRS 11, there are two forms of joint agreement: depending on the arrangement of the contractual rights and obligations of the individual investments: joint operations and joint ventures.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The assets, liabilities, income and expenses are recognized proportionately.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint ventures are accounted for in accordance with the equity method.

The SURTECO Group only has joint agreements in the form of joint ventures.

Investments in associated companies and joint venture companies are accounted for with their acquisition costs by using the equity method and they are increased or decreased by the proportionate changes in equity. If impairments exceeding the value of the individual participation occur, any available non-current assets being associated with the participation are written down. If the book value of the participation and these assets is reduced to zero, additional losses are accounted for in the appropriate scope and recognized as a liability in case the Group has entered into legal or de facto obligations to cover losses, or makes payments instead of the associated company or joint venture.

If a Group company carries out significant transactions with an associated company or joint venture, any resulting unrealized gains or losses are eliminated in accordance with the share of the Group in the associated company or joint venture.

Adjustments to uniform consolidated accounting and valuation methods are performed as necessary.

Receivables, liabilities and loans between the Group companies are netted.

Sales, expenses and income within the Group and intercompany profits arising from sales within the Group, which have not yet been disposed of to third parties, will be eliminated if they materially affect the presentation of the current net assets, the financial position and results of operations.

Deferred income tax arising from consolidation measures recognized in the income statement has been accrued.

Intercompany trade accounts are accounted for on the basis of market prices and on the basis of accounting prices that are determined according to the principle of "dealing at arm's length".

Transactions with non-controlling interests without loss of control are accounted for as transactions with the owners of the Group who act in their capacity as owners. A difference between the fair value of the consideration paid and the acquired share in the carrying value of the net assets of the subsidiary company arising from the purchase of a non-controlling interest is recognized in equity. Gains and losses which arise on the disposal in respect of non-controlling interests are also recorded in equity.

VII. Currency Translation

Business transactions in foreign currency are reported at the price on the date of first-time reporting. Exchange gains and losses arising from the valuation of receivables or liabilities up to the balance sheet date are reported at the price on the balance sheet date. Gains and losses arising from changes in price are reported with effect on earnings in the financial result (from non-operating matters) or in other operating income or other operating expenses (from operating matters).

The earnings and the balance sheet items of the foreign subsidiary companies included in the consolidated financial statements which have a different functional currency to the euro are converted into euros as follows. Assets and liabilities, as well as contingent obligations and other financial obligations, are therefore translated at the rate prevailing on the balance sheet date, whereas equity capital is translated at historic rates. Expenses and income and hence also the profit/loss for the year recognized in the income statement are translated at the average rate for the year. Differences arising from currency translation for assets and debts compared with translation in the previous year and translation differences between the income statement and the balance sheet are reported with no effect on the income statement under shareholders' equity in retained earnings (currency differences). Since all consolidated companies operate their financial, business and organizational transactions independently, the relevant national currency is the functional currency.

Translation was based on the following currency exchange rates:

Exchange rates in euros		Rate on the balance sheet date		Average rate	
		31/12/2016	31/12/2017	2016	2017
US dollar	USD	0.9470	0.8342	0.9040	0.8873
Canadian dollar	CAD	0.7028	0.6655	0.6822	0.6833
Australian dollar	AUD	0.6842	0.6523	0.6722	0.6796
Singapore dollar	SGD	0.6554	0.6244	0.6545	0.6422
Swedish krone	SEK	0.1045	0.1017	0.1057	0.1038
Sterling GBP	GBP	1.1650	1.1270	1.2244	1.1417
Turkish lira	TRY	0.2683	0.2205	0.2996	0.2434
Polish zloty	PLN	0.2264	0.2395	0.2292	0.2349
Russian rouble	RUB	0.0155	0.0144	0.0135	0.0152
Czech koruna	CZK	0.0370	0.0391	0.0370	0.0380
Mexican peso *	MXN	-	0.0423	-	0.0470
Brazilian real *	BRL	-	0.2514	-	0.2747

* The currencies MXN and BRL have also been reported in the Group since the acquisition of the Probos Group.

VIII. Accounting and Valuation Principles

Uniform accounting and valuation methods

The consolidated financial statements were drawn up in accordance with uniform accounting and valuation principles for similar business transactions and other events in similar circumstances.

Consistency of accounting and valuation methods

The accounting and valuation principles have been complied with, unless defined otherwise below, by comparison with the previous year.

Structure of the balance sheet

Assets and liabilities are recognized as non-current in the balance sheet if their residual term is more than one year or realization is expected within the normal business cycle. Liabilities are generally recognized as current if there is no unrestricted right to fulfil the obligation within the period of the next year. Shorter residual terms are recognized as current assets or liabilities. Pension provisions and other personnel-related obligations, and claims or obligations arising from deferred taxes are reported as non-current assets or liabilities.

Income and expense realization

Income is recognized if it is likely that the economic benefit will accrue to the Group and the amount of the income can be reliably determined. Income is valued at the fair value of the reciprocal product or service received.

Sales originating from the sale of goods have been recorded if the following conditions are fulfilled:

- The Group has transferred the material risks and opportunities arising from ownership of the goods to the purchaser.
- The Group retains neither a right of disposal, of the kind that is normally associated with ownership, nor an effective power of disposal over the sold goods and manufactured products.
- The level of the sales revenues can be reliably determined.
- It is probable that the economic benefit arising from the business will accrue to the Group.
- The costs incurred or still to be incurred in connection with the sale can be reliably determined.

Sales are only defined as the product sales resulting from the ordinary activities of the company. Sales revenues are recorded without value added tax and after sales reductions, such as bonuses, discounts or rebates. Provisions for customer price reductions and rebates, as well as returns, other allowances, and warranties are recognized in the same period in which the sales were reported.

Dividend income arising from financial assets available for sale is recognized if the legal right to payment of SURTECO as a shareholder has arisen.

Operating expenses are reported as expenses at the point in time at which they are incurred when the service is used, insofar as they fall within the reporting year.

Interest income and interest expenses are recorded pro rata. Income from financial assets is recorded when the legal right to payment has occurred.

EBITDA

EBITDA is earnings before financial results, income tax and depreciation and amortization.

EBIT

EBIT is earnings before financial result and income tax.

EBT

EBT is earnings before income tax.

Earnings per share

The basic earnings per share are calculated by dividing the proportion of the share in the consolidated net profit attributable to the shareholders of SURTECO SE by the weighted average of the issued shares. Shares which have been newly issued or bought back during a period are recognized pro rata for the period in which they are in free float. There were no dilution effects during the reporting periods referred to.

Determination of the fair value

In accordance with IFRS 13, the fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This applies independently of whether the price can be observed directly or has been estimated using a valuation method.

When applying valuation procedures for calculating the fair value, it is important to use as many (relevant) observable input factors as possible and as few non-observable input factors as possible.

A three-level fair value hierarchy is to be applied. The input factors used in the valuation procedures are classified as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities, where the entity drawing up the financial statements must have access to these active markets on the valuation date.
Level 2 – Directly or indirectly observable input factors which cannot be classified under Level 1.
Level 3 – Unobservable input factors.

The scope of IFRS 13 is far-reaching and encompasses non-financial assets and liabilities and equity instruments. IFRS 13 is always used if another IFRS prescribes or permits a valuation at fair value or information on the calculation of the fair value is requested.

This is particularly true for derivative financial instruments in the case of the SURTECO Group. The fair value of forward exchange contracts and cross-currency swaps of SURTECO SE is determined using the discounted cash flow method and with recourse to current market parameters.

Financial instruments

In accordance with IAS 39, a financial instrument is a contractually agreed claim or a contractually agreed obligation from which an inflow or outflow of financial assets or financial liabilities or the issue of equity capital rights results. Financial instruments comprise primary financial instruments such as trade accounts receivable or trade accounts payable, financial receivables, debts and other financial liabilities, as well as derivative financial instruments which are used to hedge risks arising from changes in currency exchange rates and interest rates.

a) Classification
For purposes of subsequent valuation, financial instruments are divided into categories.

IAS 39 categorizes financial assets as follows:

- Financial assets valued at fair value through profit and loss
- Financial assets held to maturity
- Loans and receivables
- Financial assets available for sale

Financial liabilities are classified in the following categories:

- Financial liabilities valued at fair value through profit and loss
- Financial assets valued at amortized acquisition costs

The categorization depends on the relevant purpose for which the financial instrument was entered into. The classification is reviewed on the balance sheet date and determines whether the valuation is at amortized acquisition costs or fair value.

1. Financial instruments valued at fair value through profit and loss are financial assets and liabilities which are held for trading purposes. Financial instruments valued as held for trading are allocated to this category if they have been purchased or entered into with the intention of selling them or buying them back in the short term. Derivatives also belong to this category unless they qualify as hedges. SURTECO does not make use of the fair value option. Changes in fair value of "financial instruments valued at fair value through profit and loss" are immediately reported in the income statement. They are also reported as current assets and liabilities if they are likely to be realized within twelve months of the balance sheet date.

2. "Financial assets held to maturity" are non-derivative financial assets with fixed or determinable payments and a fixed maturity, which the company intends to hold to maturity and is in a position to do this. Financial instruments in this category are reported at amortized acquisition costs and recognized in accordance with their remaining term as non-current or current assets. Impairments are recorded in the income statement with an effect on earnings. No "financial assets held to maturity" are held in the SURTECO Group.

3. "Loans and receivables" are financial assets which have fixed or determinable payments and are not listed in an active market. They are valued at amortized acquisition costs taking into account necessary impairments. Insofar as they did not arise as a result of supplies and services, they are recognized in the balance sheet under other financial assets in accordance with their maturity as non-current or current assets. Allowances are made for receivables on the basis of objective criteria, in particular in cases of repeated lack of success with reminder activities and subsequent handover of the receivable to external collection service providers, in cases of application for insolvency proceedings and in cases of receivables subject to legal dispute, which are regarded as doubtful and where no knowledge is available which would justify a different assessment. Necessary allowances are recognized in an allowance account.

4. "Financial assets available for sale" are financial assets which at the date of first-time recognition do not come under one of the other categories. They are recognized at fair value and reported as non-current or current assets in accordance with their expected availability for sale. Unrealized gains or losses are recognized due to tax effects under equity capital (market valuation of the financial instruments). A calculation is carried out on every balance sheet date to determine whether there is objective evidence to suggest that an impairment of an asset or a group of assets has been incurred. In the case of equity instruments listed on a stock exchange, a permanent decline in the fair value by more than 20 % in the six months prior to the balance sheet date or on a daily average by more than 10 % in the previous twelve months before the balance sheet date below the purchase costs would amount to objective evidence. If a sale or impairment is carried out on the balance sheet date, the fluctuations in value recognized up to that point under equity capital are recognized in the income statement. Impairments for equity instruments are not reversed with effect on income. In the case of equity instruments, an increase in the fair value after a reduction in value is recorded under equity. If financial investments in equity instruments,

for which no quoted price is available in an active market, and their fair values cannot be reliably determined, for example for financial assets of non-consolidated companies and participations, the assets are recognized at acquisition costs as appropriate less impairments.

b) Primary financial instruments

Primary financial instruments are reported on the date of fulfilment. Primary financial instruments are reported on first-time recognition at the fair value taking into account transaction costs. Transaction costs which are incurred during the acquisition of financial assets valued at cash-effective fair value are recorded directly to expense. Derecognition of the financial assets is carried out if the Group has transferred its contractual rights to cash flows from the financial assets and all opportunities and risks, which are associated with the property, were essentially transferred, or otherwise if the power of disposal over assets was transferred.

The liabilities arising from primary financial instruments can either be recognized at the amortized acquisition costs or as "liabilities at fair value through profit and loss". SURTECO values all financial liabilities at amortized acquisition costs. Financial obligations with fixed or determined payments, which are neither listed on a market arising from financial liabilities, nor derivative financial obligations, are recognized in the balance sheet under other liabilities in accordance with their remaining term.

c) Derivative financial instruments and hedging

The Group uses derivative financial instruments, such as forward exchange contracts and interest/currency swaps, in order to hedge risks associated with foreign currency and changes in interest rate which can occur in the course of ordinary business activities and with the scope of investment and financial transactions. Derivative financial instruments are used exclusively to hedge existing or held underlyings. These derivative financial instruments are recognized for the first time in the balance sheet at the fair value on the date at which the contract is closed. They are subsequently revalued at market value on the balance sheet date. Derivative financial instruments are recognized as assets if their fair value is positive and as liabilities if their fair value is negative.

For purposes of hedge accounting, hedging instruments are classified as follows:

- as hedging of the fair value, if the relationship relates to hedging the risk of a change in the fair value of a reported asset or a reported liability or a fixed obligation not reported (apart from currency risk),
- as hedging of cash flow, if the relationship relates to hedging the risk of fluctuations in the cash flow, which can be assigned to the risk associated with a reported asset, a reported liability or with a future transaction very likely to occur or to the currency risk of a fixed obligation not reported, or
- as hedging of a net investment in a foreign business operation.

At the beginning of the hedging transaction, the hedge between the underlying transaction and the hedging transaction and the risk management targets and Group strategy are formally defined and documented as risk management objectives and strategies in relation to hedging. The documentation includes the definition of the hedging instrument, the underlying transaction or the hedged transaction, as well as the type of hedged risk and a description of how the company calculates the effectiveness of the hedging instrument in the compensation of the risks arising from changes in the fair value or cash flow of the hedged underlying transaction. Hedging relationships of this nature are assessed as being highly effective in relation to achieving compensation for the risks arising from changes in the fair value or cash flow. They are continuously assessed on the basis of these terms of reference to ascertain whether they were highly effective during the entire reporting period for which the hedging relationship was defined.

Hedging transactions which meet the criteria for hedge accounting are designated by the SURTECO Group during the business year 2017 as being exclusively cash flow hedges.

The effective proportion of profit or loss arising from a hedging instrument is recorded in equity (other comprehensive income for the year). The amounts reported in equity are transferred during the period to the income statement in which the hedged transaction affects the result for the period, e.g. if hedged financial income or expenses are reported or if an anticipated sale is carried out. If planned transactions are hedged and if these transactions lead to the recognition of a financial asset or financial liability during subsequent periods, the amounts recorded up to this date in equity should be released and included in income during the period in which the asset or the liability influences the result for the period. If a hedging transaction results in recognition of a non-financial asset or a non-financial liability, the amounts recorded in equity become part of the acquisition costs at the date of addition of the non-financial asset or non-financial liability.

If the occurrence of the planned transaction or fixed obligation is no longer anticipated, the amounts recorded in equity capital are recorded immediately in the income statement. If the hedging instrument matures, comes to an end or is exercised without a replacement or roll-over of the hedging instrument into another hedging instrument, the amounts recorded so far in equity capital remain as separate items under equity until the anticipated transaction has also been included in the income statement.

Derivative financial instruments where the requirements for a hedge accounting are not met are designated as being part of the trading portfolio. Any changes in fair value for these instruments are recorded immediately with an effect on earnings.

Hedges for net investments in foreign business operations are accounted similarly to cash flow hedges. Loans in foreign currencies to subsidiary companies of the Group, which meet the prerequisites for a net investment in a foreign business operation, are accounted for as such in the SURTECO Group. The unrealized gains and losses from currency translation of loans within the Group should be recognized in equity with no effect on income until disposal of the net investment.

d) Offsetting of financial assets and liabilities

Financial assets and liabilities are only netted and then recognized as a net amount in the balance sheet if there is a legal entitlement to this and it is intended to bring about a settlement on a net basis or release the associated liability and realize the asset simultaneously.
The legal entitlement to offsetting must not depend on a future event and must be implementable in the course of normal business and in the case of a default, an insolvency or a bankruptcy.

Cash and cash equivalents comprise liquid funds and sight deposits, as well as financial assets that can be converted into cash at any time and are only subject to minimal fluctuations in value. For the valuation category in accordance with IAS 39, the cash and cash equivalents are classified as "loans and receivables.

Receivables and other financial assets are reported at amortized acquisition costs with the exception of derivative financial instruments. Allowances are made in accordance with the default risks expected in individual cases and are carried out through an allowance account. Final derecognition is carried out when the receivable is no longer recoverable. The determination of the requirements for specific allowances is carried out on the basis of the age structure of the receivable and knowledge of the credit risk, and the risk of default associated with specific customers. A lump-sum allowance on receivables takes adequate account of the general credit risk. Trade accounts receivable with standard payment terms are recorded at amortized acquisition costs, less bonuses, discounts and allowances. The Group sells trade accounts receivable in the context of factoring agreements. The receivables and other financial assets are removed from the accounts if the Group has transferred its contractual rights to cash flows from the financial assets and all opportunities and risks that are associated with the ownership have essentially been transferred or also if the power of authority over the asset has been transferred. If the prerequisites for derecognizing the receivables are not fulfilled, the assets are not removed from the accounts. The incoming payment arising from the sale of the receivable is recognized under cash and cash equivalents. A current financial liability in the same amount is also recognized under current liabilities.

Inventories comprise raw materials, consumables and supplies, services in progress, purchased merchandise and work in progress and finished goods. They are valued at acquisition or production cost or at the lower net sale value. The net sale value corresponds to the estimated recoverable proceeds from disposal in normal business operations less the necessary variable sales expenses.

Raw materials, consumables and supplies are valued at cost prices or at the lower net sale value of the goods to be manufactured. Carrying values have been calculated by the weighted-average method. Downward valuation adjustments have been undertaken to reflect obsolescence and technically restricted application.

Finished products and work in progress have been recognized at production cost. These costs include costs directly attributable to the manufacturing process and a reasonable proportion of production-related overheads. These include production-related depreciation, proportionate administrative expenses, and proportionate social security costs. Inventory risks arising from the storage period or reduced usability have been taken into account by write-downs.

In the case of inventories, write-downs on the net sale proceeds are carried out, if the book values of the inventories are too high on the basis of the lower stock-market or market values.

Development costs for intangible assets produced within the company have been capitalized under income at directly attributable acquisition or production cost, if the following criteria are complied with:

- The technical feasibility of completing the intangible asset so that it will be available for use.
- The management intends to complete the intangible asset and to use or sell it.
- There is an ability to use or to sell the intangible asset.
- The form and manner in which the intangible asset will generate probable future economic benefits.
- Adequate technical, financial and other resources are available in order to complete the development and to use or sell the intangible asset.
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Development costs which do not meet with these criteria are recorded as expenses in the period when they were generated. Development costs already recognized as expenses are not later capitalized as assets.

Property, plant and equipment have been recognized at acquisition or production cost, including incidental acquisition expenses, less accumulated scheduled depreciation and, if necessary, extraordinary depreciation.

Finance costs have not been capitalized under income as an element of acquisition or production costs because no manufacturing processes are involved over an extended period of time. Interest and other borrowing costs are recognized as expenses for the period.

The production costs of self-constructed plant include direct costs and an appropriate proportion of the overheads and depreciation.

If significant proportions of a non-current asset have varying useful lives, they are reported as separate non-current assets under "Property, plant and equipment" and are subject to scheduled depreciation (component accounting).

The costs for replacement of part of a fixed asset are included in the book value of the fixed asset (property, plant and equipment) at the date on which they were incurred, insofar as the criteria for recognition are fulfilled. When a major inspection is carried out, the costs are capitalized in the book value of the fixed asset as a replacement, insofar as the criteria for recognition are recognized. All other maintenance and repair costs are immediately recognized under income.

A fixed asset (property, plant and equipment) is either derecognized as a disposal if no economic benefit can be derived from further use or sale of the asset. The resulting gains or losses incurred from derecognition of the asset are calculated as the difference between the net sale proceeds and the book value of the asset and reported in the income statement for the period in which the asset is derecognized.

Leasing transactions are either classified as finance leasing or as operate leasing. Commercial ownership in lease items should be assigned to the lessee in accordance with IAS 17, if the lessee carries all major rewards and risks associated with the item (finance leasing). If commercial ownership should be assigned to the enterprises of the SURTECO Group, the lease item is capitalized as an asset in the amount of the fair value or the lower cash value of the future leasing rate at the point in time at which the contract was concluded and the reporting of the corresponding liabilities to the lessee as a debt. The liabilities from finance leases are recognized at the present value of the lease instalments on the basis of the interest rate used on the date when the leasing contract was concluded. Depreciation and repayment of the liability is effected according to schedule over the useful life or over the term of the lease, if this is shorter – corresponding to comparable items of property, plant and equipment acquired. The difference between the entire leasing obligation and the market value of the leased item corresponds to the finance costs that are distributed over the term and included in income, so that a uniform interest rate is applied to the remaining debt over the period. All other lease agreements, where SURTECO is the Lessee, are treated as operate leasing, with the consequence that the leasing rates are reported to expenditure when they are paid. When amendments are made to finance leasing contracts, an adjustment of the present value and book value of the leasing liability is made with respect to the book value of the leasing object with no effect on the income statement.

Intangible assets acquired for a consideration have been capitalized as assets at acquisition cost and amortized over their limited useful life using the straight-line method.

Scheduled depreciation of assets has been carried out exclusively by the straight-line method. The remaining useful lives and the method of depreciation are reviewed each year and adjusted to the actual circumstances. Depreciation is essentially based on the following commercial service lives applied across the Group:

	Years
Intangible assets	3-10
Buildings	40-50
Improvements and fittings	10-15
Technical plant and machinery	3-30
Factory and office equipment	6-13

The shares in unconsolidated companies recorded under financial assets are recognized as assets held for sale at acquisition costs because fair values are not available and other valuation methods do not yield reliable results. Associated enterprises are recorded with their proportionate equity capital using the equity method. If there are indications that associated companies will be subject to impairments, an impairment test will be carried out on the book value of the affected participation.

On each balance sheet date, the Group checks the book values of intangible assets and property, plant and equipment in order to ascertain whether there might be grounds for carrying out an Impairment. If such grounds exist, or if an annual impairment test is necessary for an asset, the Group carries out an estimate of the recoverable value for the relevant asset. The recoverable value of an asset is the higher of the two values comprising the fair value of an asset less the sale costs and the value in use. The recoverable value should be determined for each individual asset, unless an asset does not generate cash flows which are largely independent of the cash flows of other assets or other groups of assets. In this case, the recoverable amount is determined for the cash generating unit to which the asset is allocated. If the book value of an asset exceeds its recoverable amount, the asset is impaired and is written down to its recoverable amount. In order to determine the value in use, the expected future cash flows are discounted to their present value based on a discounting rate before taxes, which reflects the current market expectations in relation to the interest effect and the specific risks of the asset. The fair value less the sales costs is calculated using a recognized valuation method. This method takes into account market data on current transactions available externally and valuations of third parties

A test is carried out for assets, with the exception of goodwill, on every balance sheet date, in order to ascertain whether there are grounds indicating that a previously recorded impairment expense no longer exists or has been reduced. If such grounds exist, the Group estimates the recoverable amount. A previous recorded impairment expense is only reversed if a change in the estimates, which were used to determine the recoverable amount, has occurred since the last impairment expense was recorded. If this is the case the book value of the asset is increased to its recoverable amount. However, this amount must not exceed the book value which resulted after taking into account scheduled depreciation, if no impairment expense would have been recorded for the asset in previous years. An impairment reversal is recorded in the result for the period.

Goodwill resulting from company acquisitions is allocated to the identifiable cash generating units which are supposed to derive benefit from the synergies arising from the acquisition. Such cash generating units are the lowest reporting level in the Group at which the goodwill is monitored by the management for internal controlling purposes. The recoverable amount of a cash generating unit, which is allocated goodwill, is subjected to an annual impairment test. Reference is made to our comments under item 19 in the notes to the consolidated financial statements for further details.

The standard IFRS 3 (Business Combinations) and the standard IAS 36 (Impairment of assets) no longer permit goodwill to be subject to scheduled depreciation and amortization, rather a review of the value of these assets is carried out at regular intervals in an impairment test and if there is evidence of a potential reduction in value at other points in time.

If goodwill or intangible assets with unlimited useful life are to be allocated to the cash generating unit, the impairment test of those assets should be carried out annually or also, if events or changed circumstances result which could indicate a possible impairment, more frequently. The net asset values of the individual cash generating units are compared with their individual recoverable amount, i.e. the higher value from the net sale price and value in use. In the determination of the value in use, the present value of the future payments, which are anticipated on the basis of the ongoing use by the Strategic Business Unit, are used as the basis. The forecast of the payments is based on the current medium-term plans of SURTECO.

The cash generating units of the Group are identified in consultation with the internal reporting of the management taking into account regional allocations on the basis of strategic business units. The cash generating units of the SBU Plastics are the operating divisions under the reportable segment or in the case of the SBU Paper the reportable segment.

In the cases in which the book value of the cash generating unit is higher than their recoverable amount, the difference amounts to an impairment loss. The goodwill of the affected Strategic Business Unit is amortized in the amount of the impairment thus determined as affecting expenses in the first stage. Any remaining residual amount is distributed to the other assets of the relevant Strategic Business Unit proportionately to the book value. Any impairment carried out as necessary is recognized under other depreciation and amortization in the income statement. A subsequent write-up of the goodwill as a result of the reasons no longer being applicable is not permitted.

The actual income taxes paid or owed for the current and earlier periods are measured with the amount at the level of a rebate from the tax authorities or a payment to the tax authorities is expected. The calculation of the amount is based on the country-specific tax rates and tax regulations which are applicable on the balance sheet date.

The actual income tax liabilities related to the relevant tax year and any obligations arising from the previous years. The valuations are subject to the applicable statutory regulations taking into account current legal precedents and the prevailing professional opinion.

Deferred income tax is determined in accordance with IAS 12 on the basis of the liability method. According to this method, deferred taxes result from temporary differences between the carrying amount (value) of an asset or a liability in the balance sheet and the tax value.

Deferred tax assets are recorded for all deductible temporary differences, unused tax loss carry-forwards and unused tax credits to the extent it is probable that taxable earnings will be available against which the deductible temporary differences and the unused tax loss carry-forwards and tax credits can be used, with the exception of

- deductible temporary differences from first-time recognition of an asset or a liability arising from a transaction that is not a business combination and at the point in time of the transaction neither influences the result for the period in accordance with IFRS nor the taxable earnings.

Deferred tax liabilities are reported for all taxable temporary differences, with the exception of

- temporary differences from the first-time recognition of goodwill or an asset or liability arising from a transaction which is not a business combination and at the point in time of the transaction neither influences the result for the period in accordance with IFRS nor taxable earnings, and
- taxable temporary differences which occur in conjunction with shareholdings in subsidiary companies, if the temporal reversal of the temporary differences can be controlled and it is unlikely that the temporary differences will not be reversed in the foreseeable future.

The book value of the deferred tax assets is audited on each balance sheet date and as necessary reduced by the amount by which it is no longer likely that an adequate taxable result will be available against which the deferred tax assets can be at least partly applied. Unrecognized deferred taxes are audited on each balance sheet date and recognized in the amount at which it has become likely that a future taxable result will be available to realize the deferred tax assets. Deferred tax assets and liabilities are measured on the basis of the tax rates that are likely to be valid during the period in which an asset is realized or a debt liability is fulfilled. The tax rates (and tax laws), which are applicable or adopted on the balance sheet date, are used as the basis for calculation. Future changes in tax rates should be taken into account on the balance sheet date, insofar as material requirements for effectiveness are fulfilled pursuant to a legislative procedure.

Income and expenses arising from actual and deferred income taxes that relate to the items that are reported directly under equity or in other comprehensive income for the year are not reported in the income statement but are also recorded directly under equity or in other comprehensive income for the year. Deferred tax assets and deferred tax liabilities are offset, if the Group has an enforceable legal claim to netting the actual tax reimbursement claims against actual tax liabilities and these relate to income tax of the same tax subject and are levied by the same tax authority.

In accordance with IAS 1.70, deferred taxes are recognized as long term.

Current liabilities and non-financial liabilities have been recorded with their repayment or performance amount.

Pensions and other personnel-related obligations include obligations arising from regulations relating to company retirement provision, phased retirement and long-service awards.

Obligations arising from regulations relating to company pension provision relate to defined benefit plans which essentially cover benefit recipients employed in Germany. The arrangement depends on the legal, tax and economic relations pertaining and is generally based on the period of service and pay of the employee. The majority of pension obligations in Germany based on contractual conditions relate to lifetime pension benefits, which are paid out in case of invalidity, death and attaining the age of retirement.

The pension institutions were closed in the past. New employees will be offered a company pension plan through an external welfare fund and pension scheme; they will not receive any direct commitments from the company.
Since no further obligations or risks are incurred by the company beyond the payment of the contributions, these were classified as defined contribution plans and are therefore not taken account in the determination of the provision.

The pension obligations of SURTECO are subject to various market risks. The risks essentially related to changes in market interest rates, inflation which exerts an effect on the level of pension adjustments, the longevity and on general market fluctuations.

Pensions are valued using the projected unit credit method in accordance with IAS 19. This method recognizes the pensions and projected unit credits acquired on the balance sheet date. It also takes account of the increases in pensions and salaries anticipated in the future with prudent estimation of the relevant parameters. The obligation is determined using actuarial methods taking into account biometric accounting assumptions. The expense of allocating pension accruals, including the interest portion contained therein, is recognized under Personnel expenses. Remeasurements (actuarial gains or losses) arising from defined-benefit plans are recognized in equity (other comprehensive income for the year) with no effect on income. The standardized income on the plan assets is generated in the amount of the discounting rate of the pension obligations at the start of the reporting period. These returns are recognized with netting of the expenses arising from the pension obligations on the basis of a standardized return. Differences between the expected income and the actual income are to be recognized with no effect on income in equity (other comprehensive income for the year). Furthermore, the past service costs are to be recognized immediately at the point of arising with an effect on earnings.

Provisions for long-service bonuses are calculated on the basis of actuarial methods. The settlement backlogs and top-up amounts for phased retirement obligations were added pro rata for phased retirement obligations until the end of the active phase.

The obligations from defined-benefit plans principally exist in Germany and they are calculated taking the following actuarial assumptions into account:

	2016	2017
Interest rate	1.9 %	1.79%
Salary increases	2.0 %	2.0%
Pension increases	2.0 %	2.0%
Fluctuation rate	0.0 %	0.0%
Biometric data	Heubeck 2005G	Heubeck 2005G

The interest rate for the pension obligation is currently a uniform 1.79 % (2016: 1.9 %). Different interest rates were applied as necessary for similar other personnel-related obligations with shorter terms.

Provisions have been formed in accordance with IAS 37, if a legal or de facto obligation arises from a past event in respect of a third party, which is likely in the future to lead to an outflow of resources and where it can be reliably estimated. If a large number of similar obligations exist – as in the case of statutory warranty – the probability of a charge on assets is calculated on the basis of the group of these obligations. A provision is recognized under liabilities, if the probability of a charge on assets is lower in relation to an individual obligation held within this group. Provisions for warranty claims are formed on the basis of previous or estimated future claims. The provisions for legal disputes and other provisions have also been recorded in accordance with IAS 37 for all recognizable risks and uncertain obligations in the amount of their probable occurrence and not recognized with rights of recourse. A provision for restructuring measures is recognized as soon as the Group has approved a detailed and formal restructuring plan and the restructuring measures have either commenced or have been announced in the public domain. When a restructuring provision is measured, only the direct expenses for the restructuring are entered. This therefore only relates to amounts which have been caused by restructuring and are not related to the ongoing business operations of the Group.

Changes in equity without effect on income are also reported under the item Statement of changes in equity, if they are not based on capital transactions of the shareholders. This includes the difference arising from currency translation, accrued actuarial gains and losses arising from the valuation of pensions, and unrealized gains and losses arising from the fair valuation of financial assets available for sale and derivative financial instruments.

Contingent liabilities are possible obligations which result from events in the past, whereby their existence can only be confirmed through the occurrence or non-occurrence of one or more events in the future, which are not fully under the control of the SURTECO Group. Furthermore, contingent liabilities arise from current obligations which are based on past events, but which cannot yet be reported in the financial statements because the outflow of resources is not likely or the level of the obligations cannot be estimated with a sufficient level of reliability.

Segment reporting

Presentation of the business segments is consistent with internal reporting to the main decision-maker. The main decision-maker is responsible for decisions on the allocation of resources to the operating segments and for reviewing their earnings power. The Board of Management of SURTECO was defined as the main decision-maker.

Decisions of judgment and estimates

The preparation of consolidated financial statements in accordance with IFRS requires up to a certain level decisions of judgment, estimates and assumptions of the management which exert effects on the recognition, measurement and reporting of assets, liabilities, income and expenses, and contingent assets and liabilities. The significant facts which are affected by such decisions of judgment and estimates relate to the definition of the period of use of fixed assets, the determination of discounted cash flows within the scope of purchase price allocations and impairment tests, accrual of cash generating units, the formation of provisions for restructuring, for legal proceedings, pension benefits for employees and corresponding deductions, taxes, inventory valuations, price reductions, product liability and warranties.

The assumptions and estimates are based on premises that rely on the knowledge available at the time. In particular, the expected future business development takes account of the circumstances prevailing at the time when the consolidated financial statements were prepared and realistic assumptions on the future development of the global and sector-specific environment. Any developments of these framework conditions deviating from these assumptions and outside the sphere of influence of the management may result in deviations of the actual amounts from the estimated values originally projected. If the actual development deviates from the projected development, the premises and, if necessary, the book values of the relevant assets and liabilities are adjusted appropriately. Further explanations are described under the appropriate items.

Reporting and valuation principles should be regarded as important if they significantly influence the presentation of the net assets, financial position, results of operations and cash flows of the SURTECO Group and require a difficult, subjective and complex assessment of facts and circumstances that are often uncertain in nature, may change in subsequent reporting periods, and whose consequences are therefore difficult to estimate. The published accounting principles, which have to be based on estimates, do not necessarily exert significant effects on reporting. There is only the possibility of significant effects. The most important accounting and valuation principles are described in the notes to the consolidated financial statements.

IX. Notes to the Income Statement

(1) Sales revenues

The sales revenues are comprised as follows:

Business (product) [€ 000s]	2016	2017
Edgebandings	196,772	240,117
Foils	134,554	135,540
Decorative printing	113,388	93,443
Impregnates / Release papers	102,678	104,920
Skirtings and related products	45,909	46,505
Technical extrusions	16,859	35,802
Other	29,655	33,324
	639,815	**689,651**

(2) Changes in inventories

The changes in inventories related to work in progress amounting to € 000s 2,140 (2016: € 000s -2,032) and finished products amounting to € 000s -4,022 (2016: € 000s 7,411).

(3) Other own work capitalized

Other own work capitalized are essentially self-manufactured tools and printing cylinders.

(4) Cost of materials

Composition of the cost of materials in the Group:

[€ 000s]	2016	2017
Cost of raw materials, consumables and supplies, and purchased merchandise	311,516	330,523
Cost of purchased services	13,065	4,511
	324,581	**335,034**

(5) Personnel expenses

The following table shows personnel expenses:

[€ 000s]	2016	2017
Wages and salaries	132,408	146,358
Social security contributions	16,019	18,252
Pension costs	9,568	9,903
	157,995	**174,513**

Regarding the defined-contribution pension provision systems, the company pays contributions to state pension insurance institutions based on statutory obligations. Contributions amounting to € 000s 349 (2016: € 000s 360) are also paid to welfare funds and pension schemes. The pension costs also include payments of € 000s 8,013 (2016: € 000s 7,681) to statutory pension annuity guarantors. These payments entail no further obligations for the company to make payments.

Personnel expenses include amounts resulting from the net interest expense/income and the current service cost for pension obligations.

The average number of employees for the year amounted to 3,091 (2016: 2,736). The employees from the Probos companies acquired during the year are taken into account pro rata temporis.

The following table shows the employee structure:

			2016			2017
	Industrial	Salaried	Total	Industrial	Salaried	Total
Production	1,398	203	1,601	1,585	207	1,792
Sales	45	316	361	48	366	414
Engineering	118	36	154	132	47	179
Research and development, quality assurance	63	89	152	79	108	187
Administration, materials management	119	349	468	147	372	519
	1,743	**993**	**2,736**	**1,991**	**1,100**	**3,091**

The number of employees by regions is as follows:

	2016	2017
Germany	1,818	1,846
European Union	277	522
Rest of Europe	26	30
Asia/Australia	175	182
America	440	511
	2,736	**3,091**

(6) Other operating expenses

The other operating expenses are composed as follows:

[€ 000s]	2016	2017
Operating expenses	29,607	29,416
Sales expenses	44,870	48,817
Adminstrative expenses	23,657	25,869
Impairment losses on receivables	538	674
	98,672	**104,776**

Uncapitalized research and development costs (personnel and materials costs) in the Group amounted to € 000s 5,310 (2016: € 000s 4,530).

(7) Other operating income

The following table shows other operating income:

[€ 000s]	2016	2017
Claims for compensation	646	826
Income from commissions	826	701
Income from fixed asset disposals	201	530
Income from reversal of allowances	159	177
Income from group charges / allocated charges	34	129
Income from reversal of obligations	248	0
Income from revaluation of finance leasing liabilities	2,977	0
Other operating income	1,359	2,154
	6,450	**4,517**

In the business year 2016, income was generated from revaluation of finance lease liabilities.

(8) Financial result

[€ 000s]	2016	2017
Interest and similar income	702	646
Interest and similar expenses	-8,794	-8,357
Interest (net)	**-8,092**	**-7,711**
Income from market valuation for financial derivatives	0	-14
Currency gains/losses, net	1,795	-2,693
Other financial earnings	0	-1,151
Income from investments	62	0
Other financial expenses and income	**1,857**	**-3,858**
Share of profit of investments accounted for using the equity method	**395**	**413**
Financial result	**-5,840**	**-11,155**

In accordance with IAS 17 (leases), the proportion of interest included in finance leasing instalments is recorded in interest expenses in the amount of € 000s 447 (2016: € 000s 1,148).

Interest expenses on financial liabilities that were not measured at fair value in the amount of € 000s 39 (2016: € 000s 49) were included in the financial result.

(9) Income tax

Income tax expense is broken down as follows:

[€ 000s]		2016		2017
Current income taxes				
- Germany	-959		863	
- international	8,141		9,808	
		7,182		10,671
Deferred income taxes				
- from time differences	4,081		-3,433	
- on losses carried forward	0		-50	
		4,081		-3,483
		11,263		**7,188**

An average overall tax burden of 30.0 % (2016: 30.0 %) results for the German companies. The tax rate takes into account the trade tax (14.3 % unchanged by comparison with the previous year), the corporate income tax (15.0 % unchanged by comparison with the previous year) and the solidarity surcharge (5.5 % of corporate income tax unchanged by comparison with the previous year). The applicable local income tax rates for the foreign companies vary between 17 % and 34 % as in the previous year.

Deferred tax losses carried forward have been capitalized in the consolidated financial statements on the basis of a 5-year projection of earnings before income tax at the level of the individual companies. Uncertainties relating to different projected premises and framework conditions have been taken into account.

No deferred tax assets were recognized on loss carry-forwards for foreign Group companies amounting to € 000s 1,208 (2016: € 000s 8,191) due to restricted utility. The loss carry-forwards amounting to € 000s 513 are expired within three years, € 000s 580 within 20 years and € 000s 115 can be carried forward indefinitely.

Deferred tax liabilities amounting to € 000s 5,005 (2016: € 000s 4,694) were not recognised on temporary differences in connection with investments in subsidiaries, as the Group is in a position to control the timing of the reversal and these temporary differences will not be reversed in the foreseeable future.

The deferred tax assets and liabilities reported in the financial statements listed below are attributable to differences in recognition and valuation of individual items on the balance sheet and to tax losses carried forward:

[€ 000s]		Deferred tax assets			Deferred tax liabilities	
	2016	Change	2017	2016	Change	2017
Inventories	1,153	187	1,340	204	166	370
Receivables and other assets	129	2,864	2,993	29	1,102	1,131
Tax losses carried forward	536	-535	1	0	-50	-50
Goodwill	1,580	-980	600	3,766	-172	3,594
Property, plant and equipment	810	-286	524	27,580	-3,030	24,550
Intangible assets	53	-52	1	3,286	9,526	12,812
Other current assets	96	144	240	24	1,131	1,155
Other non-current assets	0	227	227	5,426	189	5,615
Financial liabilities	9,230	-4,888	4,342	0	0	0
Pensions and other personnel-related obligations	1,543	464	2,007	0	867	867
Trade accounts payable	0	2,476	2,476	2,511	2,791	5,302
Other liabilities	627	7,991	8,618	991	48	1,039
	15,757	**7,612**	**23,369**	**43,817**	**12,568**	**56,385**
Netting	-9,231		-4,342	-9,231		-4,342
	6,526	**7,612**	**19,027**	**34,586**	**12,568**	**52,043**

Non-current deferred taxes are included in the deferred tax assets in the amount of € 000s 4,599 (2016: € 000s 4,521), in the deferred tax liabilities in the amount of € 000s 42,988 (2016: € 000s 31,817).

Reconciliation between expected and actual income tax expenditure is as follows:

[€ 000s]	2016	2017
Earnings before Taxes (EBT)	**35,037**	**33,515**
Expected income tax	10,511	10,054
Reconciliation:		
Changes in tax rates	-	-1,322
Differences in tax rates	-569	-621
Share of profit of investments accounted for using the equity method	-7	-124
Use of loss carry-forwards not including deferred tax assets	-90	-451
Expenses not deductible from taxes	494	1,491
Tax-free income	-19	-
Allowance on deferred tax assets	342	160
Tax expenses / income not related to the reporting period	471	-1,152
Other effects	130	-847
Income tax	**11,263**	**7,188**

The average expected tax rate amounts to 30 % (2016: 30 %).

Income taxes recorded directly in other comprehensive income

Income tax which directly exerts a negative impact on, or was credited to, other comprehensive income for the year is comprised as follows:

[€ 000s]	2016	2017
Actuarial gains/losses	110	38
Fair value measurement of financial instruments	109	12
Reclassification into the income statement	53	23
Net investment in a foreign operation	216	142
	488	**215**

(10) Earnings per share

	2016	2017
Consolidated net profit in € 000s	23,867	26,192
Weighted average of no-par value shares issued	15,505,731	15,505,731
Basic and undiluted earnings per share in €	1.54	1.69

The earnings per share are calculated by dividing the proportionate earnings of the shareholders of SURTECO SE by the weighted average of the issued shares.

X. Notes to the Balance Sheet

(11) Cash and cash equivalents

[€ 000s]	2016	2017
Cash in hand and bank balances	50,416	69,527
Fixed-term deposits	10,000	63,846
	60,416	**133,373**

(12) Trade accounts receivable

[€ 000s]		2016		2017
Trade accounts receivable	54,572		62,252	
Less allowances	-2,500		-4,426	
Book value		**52,072**		**57,826**

The allowances relate to specific allowances and lump-sum allowances. The calculation of the specific allowance is carried out on the basis of the age structure, and on account of knowledge about the customer-specific credit and default risk.

The allowances developed as follows:

[€ 000s]	2016	2017
1/1/	**2,842**	**2,500**
Addition to consolidation scope	0	2,222
Recourse	-592	-395
Release of unused amounts	-160	-213
Addition (effect on expenses)	410	270
Exchange rate differences	0	42
31/12/	**2,500**	**4,426**

There is no significant concentration of risk in the trade accounts receivable on account of the diversified customer structure of the SURTECO Group. The maximum default risk corresponds to the book values of the net receivables. The current values of the trade accounts receivable essentially correspond to the book values.

The following table shows the maturity structure of receivables:

[€ 000s]		2016	2017
Book value		**52,072**	**57,826**
of which: not impaired and not overdue		44,113	43,398
of which: not impaired on the balance sheet date and overdue in the following periods	up to 3 months	7,198	10,417
	3-6 months	277	34
	6-12 months	251	50
	more than 12 months	521	3,927
Less lump-sum allowances		-288	-76

There were no indications on the balance sheet date that payment defaults would occur for trade accounts receivable which were neither overdue nor impaired.

(13) Inventories

The inventories of the Group are comprised as follows:

[€ 000s]	2016	2017
Raw materials, consumables and supplies	40,981	40,395
Work in progress	10,632	12,772
Finished products and goods	67,983	66,565
	119,596	**119,732**

Impairments of € 000s 2,400 (2016: € 000s 2,764) were reported on inventories.

Of the inventories, € 000s 42,515 (2016: € 000s 42,109) were recognized under assets at the net disposal value.

(14) Current income tax receivables

Claims arising from income tax are recognized under current tax assets insofar as their due date is not twelve months after the balance sheet date.

Corporate income tax credits are recognized under non-current tax assets. These were granted when the law on tax measures to accompany the adoption of European companies and amendment to additional tax regulations (SE Introductory Act, SEStEG) came into force. On 13 December 2006, a legal unconditional claim to refund of corporate income tax credits from the period of the tax imputation system (§ 37 Corporate Income Tax Act, KStG amended version) came into effect for the first time with expiry on 31 December 2006. The credit was paid out in ten equal annual instalments from 2008 to 2017. The present value of the corporate income tax credit on the balance sheet date amounts to € 000s 0 (2016: € 000s 154), of which € 000s 0 (2016: € 000s 154) are recognized under current income tax assets.

(15) Other current financial and non-financial assets

[€ 000s]		2016		2017
Other current non-financial assets				
Income tax assets (value added tax, wage tax)	3,591		5,522	
Prepaid expenses	1,673		2,741	
Other	1,343		1,194	
		6,607		9,457
Other current financial assets				
Factoring	1,192		1,248	
Bonuses receivables	835		960	
Security deposits	178		296	
Creditors with debit balances	261		209	
Receivables from employment relationships	1,109		119	
Other loans	900		100	
Interest-currency swaps for US Private Placement	14,536		0	
Other	639		734	
		19,650		3,666
		26,257		**13,123**

No significant impairments were carried out on the other current assets recognized.

Other current financial assets

In the business year 2007, a loan amounting to some € 150 million was floated in the form of a US Private Placement. The US $ tranche amounting to US $ 70 million was repaid in full in August 2017. The cash flow from the interest-currency swaps occurred every six months at the interest payment points until repayment and was recorded in the income statement with an effect on earnings. The capital payment and interest flows in USD were fully hedged in euros with interest-currency swaps. The interest cash flows were hedged against changing interest payments up to the issue of the loans. This resulted in the following effects during the year under review: realization of interest income amounting to € 000s 79 (2016: € 000s 182).

The US Private Placement currently only comprises the EUR € tranche amounting to € 60 million with an original term of 12 years. The EUR € tranche is repayable in August 2019. Fixed interest agreements at 5.7 % and interest payment points every six months are applicable for the loan.

The receivables recognized from factoring result from the sales of trade receivables of SURTECO SE to a factor. These receivable sales led to a continuing involvement. The late payment risk from the contracts sold remains with SURTECO. Apart from the continuing involvement, the receivables include the reservation amount of the factor for invoice deductions by the customer. Sales of receivables with a book value at 31 December 2017 amounting to € 000s 11,626 (2016: € 000s 9,806) led to a partial disposal. A continuing involvement asset in the amount of € 000s 150 (2016: € 000s 145) was reported for this under the receivables from factoring. The associated liability in the amount of € 000s 151 (2016: € 000s 151) was reported under current liabilities. The maximum amount of the receivables sold amounts to € 000s 24,040 (2016: € 000s 16,454; book value € 25.8 million) in the business year.

Obligations in respect of the factor amounting to € 000s 3,643 (2016: € 000s 2,193) are also recognized under other current financial liabilities for receivables settled by the balance sheet date.

€ 000s 0 (2016: € 000s 800) were included in current other loans to associated non-consolidated subsidiaries.

(16) Fixed assets

The fixed assets are comprised as follows:

[€ 000s]	Property, plant and equipment	Intangible assets	Goodwill	Total
Acquisition costs				
1/1/2016	**548,835**	**58,946**	**158,115**	**765,896**
Currency adjustment	-631	-445	-247	-1,323
Addition to consolidation scope	8,919	15,155	7,623	31,697
Additions	31,458	3,016	0	34,474
Disposals	-38,577	-66	0	-38,643
Transfers	-80	80	0	0
31/12/2016	**549,924**	**76,686**	**165,491**	**792,101**
1/1/2017 3)	**636,560**	**79,249**	**164,286**	**880,095**
Currency adjustment	-13,659	-1,494	-1,583	-16,736
Addition to consolidation scope	17,353	39,907	45,370	102,630
Additions	40,807	1,900	0	42,707
Disposals	-16,895	-596	0	-17,491
31/12/2017	**664,166**	**118,966**	**208,073**	**991,205**
Depreciation and amortization				
1/1/2016	**303,902**	**36,718**	**46,756**	**387,376**
Currency adjustment	-1,057	-71	-93	-1,221
Additions	27,479	5,982	0	33,461
Disposals	-26,014	-66	0	-26,080
Transfers	-14	14	0	0
31/12/2016	**304,296**	**42,577**	**46,663**	**393,536**
1/1/2017 4)	**394,155**	**44,934**	**45,458**	**484,547**
Currency adjustment	-7,356	-753	-688	-8,797
Additions	29,761	8,706	-44	38,423
Disposals	-10,602	-597	44	-11,155
31/12/2017	**405,958**	**52,290**	**44,770**	**503,018**
Book value at 31/12/2017	**258,208**	**66,676**	**163,303**	**488,187**
Book value at 31/12/2016	**245,628**	**34,109**	**118,828**	**398,565**

3) The carry-forward values of the acquisition costs were adjusted because of corrections in the sub-ledger accounts in property, plant and equipment in the amount of € 000s 86,636, in intangible assets in the amount of € 000s 2,563 and in goodwill in the amount of € 000s -1,205.

4) The carry-forward values of the accumulated depreciation were adjusted analogous with property, plant and equipment in the amount of € 000s 89,859, with intangible assets in the amount of € 000s 2,357 and with goodwill in the amount of € 000s -1,205.

(17) Property, plant and equipment

Property, plant and equipment are comprised as follows:

[€ 000s]	Land and buildings	Financial leasing for land and buildings	Technical equipment and machines	Other equipment, factory and office equipment	Payments on account and assets under con-struction	Total
Acquisition costs						
1/1/2016	**129,609**	**39,835**	**291,475**	**75,919**	**11,997**	**548,835**
Currency adjustment	-185	0	-207	-250	11	-631
Addition to consolidation scope	3,614	0	3,524	1,781	0	8,919
Additions	3,377	0	15,014	6,978	6,089	31,458
Disposals	-673	-13,205	-20,196	-3,102	-1,401	-38,577
Transfers	2,532	404	302	4,167	-7,485	-80
31/12/2016	**138,274**	**27,034**	**289,912**	**85,493**	**9,211**	**549,924**
1/1/2017 5)	**137,994**	**26,245**	**376,988**	**86,137**	**9,196**	**636,560**
Currency adjustment	-2,965	-3	-9,832	-793	-66	-13,659
Addition to consolidation scope	5,673	0	10,991	475	214	17,353
Additions	5,307	0	17,261	7,991	10,248	40,807
Disposals	-3,248	-734	-7,626	-4,905	-382	-16,895
Transfers	415	1,114	3,938	100	-5,567	0
31/12/2017	**143,176**	**26,622**	**391,720**	**89,005**	**13,643**	**664,166**
Depreciation and amortization						
1/1/2016	**54,624**	**6,001**	**187,094**	**56,178**	**5**	**303,902**
Currency adjustment	-157	0	-800	-100	0	-1,057
Additions	3,456	1,272	16,909	5,842	0	27,479
Disposals	-326	-3,196	-19,769	-2,723	0	-26,014
Transfers	0	0	-1,963	1,963	-14	-14
31/12/2016	**57,597**	**4,077**	**181,471**	**61,160**	**-9**	**304,296**
1/1/2017 6)	**55,958**	**3,160**	**272,960**	**62,086**	**-9**	**394,155**
Currency adjustment	-868	-3	-5,985	-500	0	-7,356
Additions	3,678	726	19,107	6,250	0	29,761
Disposals	-221	0	-6,112	-4,283	14	-10,602
Transfers	-345	337	636	-628	0	0
31/12/2017	**58,202**	**4,220**	**280,606**	**62,925**	**5**	**405,958**
Book value at 31/12/2017	**84,974**	**22,402**	**111,114**	**26,080**	**13,638**	**258,208**
Book value at 31/12/2016	**80,677**	**22,957**	**108,441**	**24,333**	**9,220**	**245,628**

As at 31 December 2017, property, plant and equipment with a carrying amount of € 000s 1,876 (2016: € 000s 2,177) was pledged as collateral for existing liabilities.

5) The carry-forward values of the acquisition costs were adjusted analogous with land and buildings by € 000s -280, with financial leasing for land and buildings by € 000s -789, with technical equipment and machines by € 000s 87,076, with other equipment, factory and office equipment by € 000s 644 and with payments on account by € 000s -15.

6) The carry-forward values of the accumulated depreciation were adjusted analogous with land and buildings by € 000s -1,639, with financial leasing for land and buildings by € 000s -917, with technical equipment and machines by €000s 91,489 and with other equipment, factory and office equipment by € 000s 926.

(18) Intangible assets

Intangible assets include essentially IT software and assets acquired as a part of acquisitions.

[€ 000s]	Concessions, patents, licences and similar rights	Customer relations, trademarks and similar values	Development expenses	Payments on account	Total
Acquisition cost					
1/1/2016	**34,555**	**21,399**	**2,675**	**317**	**58,946**
Currency adjustment	-193	-206	-46	0	-445
Addition to consolidation scope	2,295	12,860	0	0	15,155
Additions	1,100	0	1,886	30	3,016
Disposals	-66	0	0	0	-66
Transfers	-1,383	90	1,562	-189	80
31/12/2016	**36,308**	**34,143**	**6,077**	**158**	**76,686**
1/1/2017 [7]	**30,901**	**39,984**	**8,206**	**158**	**79,249**
Currency adjustment	-523	-857	-112	-2	-1,494
Addition to consolidation scope	5,233	34,674	0	0	39,907
Additions	36	0	1,850	14	1,900
Disposals	-596	0	0	0	-596
Transfers	-993	2,440	-1,437	-10	0
31/12/2017	**34,058**	**76,241**	**8,507**	**160**	**118,966**
Depreciation and amortization					
1/1/2016	**21,754**	**13,067**	**1,897**	**0**	**36,718**
Currency adjustment	-148	120	-43	0	-71
Additions	3,096	2,427	459	0	5,982
Disposals	-66	0	0	0	-66
Transfers	-2,745	2,486	273	0	14
31/12/2016	**21,891**	**18,100**	**2,586**	**0**	**42,577**
1/1/2017 [8]	**24,549**	**17,075**	**3,310**	**0**	**44,934**
Currency adjustment	-369	-322	-62	0	-753
Additions	3,004	4,604	1,098	0	8,706
Disposals	-597	0	0	0	-597
Transfers	-2,150	2,440	-290	0	0
31/12/2017	**24,437**	**23,797**	**4,056**	**0**	**52,290**
Book value at 31/12/2017	**9,621**	**52,444**	**4,451**	**160**	**66,676**
Book value at 31/12/2016	**14,417**	**16,043**	**3,491**	**158**	**34,109**

7) The carry-forward values of the acquistion costs were adjusted analogous with concessions, patents, licences and similar rights by € 000s -5,407, with customer relations, trademarks and similar rights by € 000s 5,841 and with development expenses by € 000s 2,129.

8) The carry-forward values of the accumulated depreciation were adjusted analogous with concessions, patents, licences, technology and similar rights by € 000s 2,658, with customer relations, trademarks and similar rights by € 000s -1,025 and with development expenses by € 000s 724.

(19) Goodwill

Goodwill is comprised of the following amounts from the takeover of business operations and from capital consideration.

Goodwill developed as follows:

[€ 000s]	2016	2017
1/1/	**111,359**	**118,828**
Additions	7,623	45,370
Currency adjustment	-154	-895
31/12/	**118,828**	**163,303**

The additions relate to the shares in the Probos Group acquired during the year under review. The goodwill was allocated to the CGU edgebandings.

Goodwill is allocated to cash generating units (CGU Level) for purposes of carrying out annual or event-related (triggering events) impairment tests. These correspond to the operating divisions in Business Unit Paper and in the Business Unit Plastics.

The value of the goodwill recognized in the year under review was also evident in a variation in growth rate and discounting rate.

The book value of the goodwill was attributed to the cash generating units as follows:

[€ 000s]		2016		2017
CGU edgebandings	67,037		111,755	
CGU skirtings	36,281		36,281	
CGU technical foils	8,509		8,281	
Strategic Business Unit Plastics		111,827		156,317
Strategic Business Unit Paper		7,001		6,986
		118,828		**163,303**

The value in use to be applied for carrying out the impairment test is calculated on the basis of a company valuation model (discounted cash flow). The calculation is carried out using cash flow plans which are based on medium-term planning for a period of five years that has been approved by the Board of Management and is valid at the time when the impairment test was carried out. These plans include experience and expectations relating to the future market development. Growth rates are estimated individually for each subsidiary company on the basis of the macro-economic framework data for the regional market, the market opportunities and experiences in the past. The underlying growth rates applied for the impairment test are based on medium-term planning for a period of 5 years amounted to an average of 4.3% for sales and 8.1 % for EBITDA. For the period after the fifth year, a growth rate of 1 % was used for sales and for EBITDA, since the value in use is mainly determined by the terminal value and this responds in a particularly sensitive way to changes in assumptions with respect to its growth rate and its interest rate.

The costs of capital are calculated as a weighted average of the costs of equity and debt. As far as possible, external information from the comparator group or available market data are used. The costs of equity correspond to the expectations of return held by investors. Market conditions for loans are taken into account for borrowing costs. This yielded an interest rate of 6.9 % (2016: 7.2 %) before taxes in December 2017.

Based on the impairment tests carried out in the business year 2017, the values in use of the cash generating units are estimated higher than the net asset values. As a result, no impairments have been recognized.

Recoverability also exists by variation in the discount rate and the growth forecast. An increase in the interest rate and a reduction in the long-term growth rate was assumed for this purpose. On this basis, the SURTECO Group comes to the conclusion that an impairment requirement would not result for any of the groups of cash-generating units.

(20) Investments accounted for using the equity method

[€ 000s]	Investments in associated companies*	Investments in joint ventures	Investments accounted for using the equity method
Acquisition costs			
1/1/2016	**1,319**	**1,962**	**3,281**
Currency adjustment	0	-482	-482
Proportionate earnings	0	395	395
Payout	-60	-181	-241
Disposals	-1,259	0	-1,259
31/12/2016	**0**	**1,694**	**1,694**
Currency adjustment	-	58	58
Proportionate earnings	-	413	413
Payout	-	-177	-177
31/12/2017	**-**	**1,988**	**1,988**

* The shareholding (30%) in the associated company Saueressig Design Studio GmbH, Mönchengladbach, was sold in the business year 2016.

The investments accounted for using the equity method relate to one joint venture in the business year 2017.

Name	Country of registration	Percentage of shares held	Type of business activity	Type of participation
Canplast Mexico S.A. de C.V.	Mexico	50%	Sale of edgebandings	Joint-venture company

The company Canplast Mexico accounted for using the equity method is not a listed company so that no market price is available for this investment. The joint venture company exerts no significant effect on the net assets, financial position and results of operations of the SURTECO Group.

The following information presents the amounts in the financial statements of the companies accounted for using the equity method and not the corresponding shares of SURTECO SE in them. Adjustments on the basis of differences between the accounting and valuation methods with the companies accounted for using the equity method were not carried out in the Group for reasons of materiality.

[€ 000s]	Associated companies	Joint ventures	2016 Total	Associated companies	Joint ventures	2017 Total
Current assets	-	3,811	3,811	-	3,316	3,316
Non-current assets	-	616	616	-	706	706
Current liabilities	-	-1,231	-1,231	-	-920	-920
Non-current liabilties	-	0	0	-	-112	-112
Net assets (100 %)	**0**	**3,196**	**3,196**	**-**	**2,990**	**2,990**
Share of the Group in the net assets (50 %)	-	1,598	1,598	-	1,495	1,495
Book value of the share	-	1,694	1,694	-	1,988	1,988
Sales revenues	-	6,938	6,938	-	6,283	6,283
EBT	-	1,382	1,382	-	1,186	1,186
Profit after taxes	-	987	987	-	826	826
Other comprehensive income	-	-	-	-	-	-
Total income	-	987	987	-	826	826
Share of the Group in the total income	-	395	395	-	413	413
Payout received from associated companies	60	-	60	-	-	-
Payout received from joint ventures	-	181	181	-	177	177
Book value	**-**	**1,694**	**1,694**	**-**	**1,988**	**1,988**

The financial assets developed as follows:

[€ 000s]	2016	2017
1/1/	**21**	**21**
Participations	0	10
Loans to affiliated companies *	0	800
31/12/	**21**	**831**

* Loans to a non-consolidated company; in the previous year, these were recognized over other current assets.

(21) Income tax liabilities

Tax liabilities include the income tax due for the business year 2017 or earlier business years and not yet paid, and the anticipated tax payments for previous years.

(22) Short-term provisions

[€ 000s]	1/1/2017	Currency adjustment	Expense	Release *	Addition	31/12/2017
Warranty	1,775	-14	-588	-424	732	1,481
Legal disputes	1,006	0	0	-9	420	1,417
Restructuring	502	0	-481	-21	338	338
Impending losses	69	0	-10	-26	157	190
Other	231	-9	-137	-6	451	540
	3,583	**-23**	**-1,216**	**-486**	**2,098**	**3,966**

* The release of the provisions is carried out in accordance with the corresponding cost categories through which they were formed.

The warranty provision was formed for warranty obligations arising from the sale of products. The valuation is made on the basis of experience values.

The legal disputes essentially relate to a protective rights agreement.

The restructuring provision includes expenses which are used for a social compensation plant and reconciliation of interests for the employees of the printing facility in Laichingen which was relocated in 2015. This facility was integrated at Buttenwiesen-Pfaffenhofen in the course of concentration of decorative printing activities in Germany.

The provision for impending losses was essentially formed for risks arising from pending sales transactions. It is likely that the sale of products will be below the costs of manufacture. The time of anticipated outflow will come with fulfilment of the sales transactions.

(23) Other current financial and non-financial liabilities

[€ 000s]		2016		2017
Other current non-financial liabilities				
Tax liabilities (value added tax)	922		1,725	
Social insurance against occupational accidents	775		787	
Supervisory Board remuneration	383		408	
Deferred income	268		254	
Other	307		1,067	
		2,655		4,241
Other current financial liabilities				
Liabilities from employment relationships *	14,057		16,938	
Other current liabilities factoring	2,344		3,796	
Bonuses and promotional cost	1,442		1,906	
Debitors with credit balances	2,502		1,787	
Commissions	716		655	
Payments on account received	417		387	
Other	172		765	
		21,650		26,234
		24,305		**30,475**
* of which social security		1,081		1,288

Other current financial liabilities
The liabilities from employment relationships primarily include, apart from the wage and salary payments not yet paid on the balance sheet date, obligations arising from profit shares, bonuses, holiday and working time credits.

Obligations in respect of the factoring agent for receivables settled as at the balance sheet date are recognized under other current liabilities arising from factoring. Reference is made to our comments on receivables from factoring under item 15 “Other current assets” in the notes to the consolidated financial statements for further details.

(24) Other non-current financial assets, financial liabilities and other non-current financial liabilities

The other non-current financial assets essentially relate to the fair value of the purchase option for the acquisition of the remaining 15 % of the shares in the Nenplas Group amounting to € 000s 4,300 (2016: € 000s 4,300).

Correspondingly, the sale option granted to the seller in respect of 15 % of the shares in Nenplas amounting to the fair value of € 000s 4,300 (2016: € 000s 4,300) were recorded in other non-current financial liabilities.

The purchase and sale option can be exercised at any time up to 31 December 2019.

Interest liabilities, including the liabilities of finance lease, of the SURTECO Group are recognized under short-term and long-term financial liabilities.

Financial liabilities amounting to € 000s 1,876 (2016: € 000s 2,177) in the special-purpose entities are secured by charges on property and assignment of receivables of the special-purpose entities.

Fixed-interest agreements have been primarily agreed for the other non-current banking liabilities with interest rates in a range between 1.055 % and 5.70 %.

In the reporting period, SURTECO SE raised a promissory note loan in the amount of € 000s 200,000. This is divided into four tranches with terms of between five and ten years.

Short-term financial liabilities include short-term credit lines that have been drawn down and variable-interest credit lines for supplies, the short-term proportion of loan liabilities and non-current finance lease liabilities of € 000s 2,013 (2016: € 000s 1,160).

The liabilities from finance leasing are released over the contract term and are due on the balance sheet date as follows:

[€ 000s]	2016	2017
Leasing payments to be made in the future		
in less than one year	1,824	2,405
between one year and five years	14,346	13,696
after more than five years	14	28
Interest share		
in less than one year	-664	-392
between one year and five years	-1,850	-742
after more than five years	-1	-2
Present value		
in less than one year	1,160	2,013
between one year and five years	12,496	12,954
after more than five years	13	26
	13,669	**14,993**

(25) Pensions and other personnel-related obligations

Commitments for company pensions were concluded for individual employees of the SURTECO Group. The defined-benefit commitments were concluded through individual contracts and in collective agreements. They essentially provide for pension payments when an employee retires, becomes incapacitated and/or in cases of death. The level of the provision payments depends on the final salary achieved taking account of length of service with the company and fixed pension components for each year of service. The pension commitments in Germany are subject to the German Company Pensions Act.

The financing of the projected benefit obligations arising from pension obligations amounts to € 000s 11,032 (2016: € 000s 10,809) internally through the contribution to a pension provision and through pledged reinsurance amounting to € 000s 228 (2016: € 000s 253), which secures the obligations partly or fully congruently.

[€ 000s]	2016			2017		
	Present value of obligation	Fair value of plan assets	Provision	Present value of obligation	Fair value of plan assets	Provision
1/1/	**10,668**	**-209**	**10,459**	**10,809**	**-253**	**10,556**
Pension payments on account	-452	0	-452	-526	0	-526
Payments from plan settlements	0	6	6	0	7	7
Current service expense	54	0	54	92	0	92
Interest income	0	-5	-5	0	-5	-5
Interest expense	226	0	226	195	0	195
Remeasurements						
Actuarial gains / losses						
from experience adjustments	0	-45	-45	-55	23	-32
from changes in financial parameters	316	0	316	143	0	143
	316	-45	271	88	23	111
Other changes				389		389
Currency adjustment	-3	0	-3	-15		-15
31/12/	**10,809**	**-253**	**10,556**	**11,032**	**-228**	**10,804**

The pension obligations, the plan assets, and the provision developed as follows:
There is no active market price quotation for the plan assets

The Group recognizes remeasurements from defined-benefit plans in shareholder's equity (other comprehensive income). The amount included for 2017 before deferred taxes amounts to € 000s 100 (2016: € 000s 317). Up to now, a total of € 000s 2,837 (2016: € 000s 1,977) has been recognized in shareholders' equity.

The annual payments by the employer (expected pension payments) in the coming business year amounted to € 000s 478.

If the other assumptions remain constant, the changes which were possible subject to an objective analysis on the balance sheet date would have exerted an influence on the defined-benefit obligation in the event of one of the significant actuarial assumptions set out below (sensitivity analysis):

[€ 000s]	Change in present value of pension obligation			
	2016		2017	
	Increase	Decrease	Increase	Decrease
Increase in the interest rate by 0.25%		327		316
Decrease in the interest rate by 0.25%	345		333	
Increase in future pension rises by 0.25%	291		285	
Reduction in future pension rises by 0.25%		279		273

A similar approach is adopted by determining the sensitivities and the scope of obligation. If several assumptions are changed at the same time, the overall effect does not necessarily have to correspond to the sum of the individual effects due to the changes in the assumptions. Furthermore, the effects are not linear.

The weighted average residual term of the benefit obligations is 13.1 years to 31 December 2017.

The additional personnel-related obligations include phased-retirement and long-service agreements. The phased-retirement obligations amount to € 000s 297 (2016: € 000s 198) on the balance sheet date and these obligations are balanced by plan assets amounting to € 000s 217 (2016: € 000s 50) on account of the statutory requirement for insolvency protection. The long-service obligations amount to € 000s 1,930 on the balance sheet date (2016: € 000s 2,326).

Out of the non-current obligations arising from phased-in retirement arrangements € 000s 113 (2016: € 000s 136) are due in 2018.

(26) Shareholders' equity

The subscribed capital (capital stock) of SURTECO SE is € 15,505,731.00 and is fully paid in. It is divided into 15,505,731 no-par-value bearer shares (ordinary shares) corresponding to a proportion of the capital stock of € 1.00 in each case.

The Board of Management is authorized to increase the capital stock of the company once or in partial amounts in the period to 27 June 2019 by overall up to € 1,500,000.00, with the consent of the Supervisory Board by the issue of no-par-value bearer shares, for a cash consideration (Authorized capital I). The Board of Management is entitled, with the consent of the Supervisory Board, to exclude the pre-emptive right of shareholders up to a proportionate amount of the capital stock of € 1,500,000.00, if the new shares are issued at an issue amount, which is not significantly lower than the stock-market price. The Board of Management is further authorized to have the new shares taken over by a bank, a financial services institution or a company operating pursuant to § 53 (1) Sentence 1 or § 53 b (1) Sentence 1 or (7) of the German Banking Act (KWG), with the obligation to offer them for purchase to shareholders. If the Board of Management does not make use of the above authorizations to exclude pre-emptive rights, the pre-emptive right of the shareholders may only be excluded for equalization of fractions. The Board of Management decides on the additional content of share rights and the conditions of issue, with the consent of the Supervisory Board.

The Board of Management is authorized to increase the capital stock of the company once or in partial amounts in the period to 27 June 2019 by overall up to € 6,200,000.00, with the consent of the Supervisory Board by the issue of no-par-value bearer shares, for a cash consideration or non-cash contributions (Authorized capital II). In the case of a capital increase for a cash consideration, the shareholders should be granted a pre-emptive right, although the Board of Management is authorized to exclude the fractions from shareholders' statutory pre-emptive right. The Board of Management is further authorized to have the new shares taken over by a bank, a financial services institution or a company operating pursuant to § 53 (1) Sentence 1 or § 53 b (1) Sentence 1 or (7) of the German Banking Act (KWG), with the obligation to offer them for purchase to shareholders. In the case of a capital increase for a non-cash consideration, the Board of Management is entitled to exclude the statutory pre-emptive right of shareholders. The Board of Management decides on the additional content of share rights and the conditions of issue, with the consent of the Supervisory Board.

Capital reserve

The capital reserve of SURTECO SE includes the amounts by which the capital investment values of investments in affiliated enterprises paid within the scope of capital increases against non-cash considerations exceed the amounts of capital stock allocated to the SURTECO shares released for this purpose.

Netting differences capitalized as assets arising from capital consolidation on account of the pooling of interests method were netted in the consolidated financial statements of SURTECO SE against the capital reserve during the year of first-time consolidation.

The capital reserve is unchanged by comparison with the previous year and amounts to € 000s 122,755.

Retained earnings

Retained earnings include transfers from net profit and the accumulated comprehensive income resulting from the following items:

- Offsetting of actuarial gains and losses with no effect on income
- Differences arising from currency translations of annual financial statements of foreign subsidiaries with no effect on income
- Unrealized gains and losses arising from foreign-currency loans to subsidiary companies which met the requirement of a net investment

Reconciliation of the equity components affected by comprehensive income:

[€ 000s]	31/12/2016 Reserve				31/12/2017 Reserve			
	Fair value measurement for financial instruments	Other comprehensive income	Currency translation adjustments	Total other comprehensive income	Fair value measurement for financial instruments	Other comprehensive income	Currency translation adjustments	Total other comprehensive income
Components of other comprehensive income not to be reclassified to the income statement								
Remeasurements of defined benefit obligations		-207				-62		
Other changes						116		
Components of other comprehensive income that may be classified to the income statement								
Net gains / losses from hedging of a net investment in a foreign operation			-530				-333	
Exchange differences in translation of foreign operations			-859				-7,872	
Fair valuation of cash flow hedges	-266				-30			
Reclassification amounts in the income statement	-129				-56			
Other comprehensive income	**-395**	**-207**	**-1,389**	**-1,991**	**-86**	**54**	**-8,205**	**-8,237**

Dividend proposal

The dividend payout of SURTECO SE is based on net profit reported in the financial statements of SURTECO SE in accordance with commercial law in conformity with § 58 (2) of the Stock Corporation Act (Aktiengesetz, AktG). The financial statements of SURTECO SE drawn up in accordance with commercial law have recorded a net profit of € 000s 12,405 (2016: € 000s 12,405). The Board of Management and Supervisory Board of SURTECO SE propose to the Annual General Meeting that a dividend payout of € 0.80 (2016: € 0.80) per share, amounting to € 000s 12,405 (2016: € 000s 12,405) be paid out.

(27) Non-controlling interests

The following table provides an overview of financial information for companies with non-controlling interests which are important for the SURTECO Group.

The table presents balance sheet values at 31 December 2017 for the companies of the Nenplas Group before elimination of intragroup transactions and without the effect arising from the purchase price allocation:

[€ 000s]	Nenplas Holding Ltd.	Nenplas Ltd.	Polyplas Extrusion	Delta Plastics Ltd.	Nenplas Properties Ltd.	Nenplas Properties Holding Ltd.
	2017	2017	2017	2017	2017	2017
ASSETS	**5,327**	**14,307**	**5,327**	**1,212**	**-**	**1**
Current assets	-	4,533	4,618	1,212	-	
Non-current assets	5,327	9,773	710			1
LIABILITIES	**5,327**	**14,307**	**5,327**	**1,212**	**0**	**1**
Current liabilities	3,252	6,278	531	229	-1	1
Non-current liabilities	-1	262	77			
Shareholders' equity	2,077	7,766	4,720	982	1	0

€ 000s 2,922 (2016: € 000s 2,793) were attributed to non-controlling interests in the equity of the Nenplas companies on 31 December 2017.

(28) Contingent liabilities and other financial obligations

Contingent liabilities were recognized on 31 December 2017 amounted to € 000s 71 (2016: € 000s 114) and relate exclusively to a special-purpose entity. The probability of occurrence is assessed as low. There are no identifiable points of reference for assuming that the conditions underlying the investment allowance are no longer applicable. Furthermore, guarantees were provided for non-consolidated companies (see notes item 33).

Obligations arising from rental, hire and leasing contracts relate exclusively to rental contracts whereby the companies of the SURTECO Group are not the commercial owners of the leased assets in accordance with IFRS. The operate leasing contracts essentially relate to typical commercial leasing relationships on the rental of factory and office equipment. The operate leasing contracts have terms of one year to five years and partly include extension options and price adjustment clauses.

[€ 000s]	2016	2017
Rental and operate leasing obligations due		
in less than one year	2,536	3,181
between one year and five years	4,132	4,785
after more than five years	2,218	182
	8,886	**8,148**

Payments from operate leasing contracts in the period are recorded in the amount of € 000s 2,001 (2016: € 000s 2,412).

Commitments amounting to € 000s 6,969 (2016: € 000s 1,388) were recognized arising from orders for investment projects already in progress or planned in the area of items of property, plant and equipment and intangible assets (commitments from orders).

The corresponding payments are due in full in the business year 2018.

(29) Capital management

The goals of capital management are derived from financial strategy. This includes safeguarding liquidity and guaranteeing access to the capital market. The capital is defined as the shareholders' equity recognized in the balance sheet and the net debt.

Measures for achieving the goals of capital management are optimization of the capital structure, equity capital measures, compliance with covenants, acquisitions and disinvestments, as well as the reduction of net debts. The Group is not subject to the imposition of any statutory capital requirements.

The dividend payout for the business year 2017 amounted to € 000s 12,405.

Our finance controlling is based on the indicators defined in our finance strategy. The interest cover factor was 10.8 (2016: 9.2) in 2017. The debt-service coverage ratio was 34 % (2016: 42.3 %) in 2017. The net debt amounted to € 000s 189,950 (2016: € 000s 135,570) on 31 December 2017 and the equity ratio was 41.4 % (2016: 51.4 %). The calculation of the indicators is presented in the management report.

The international business profile of the Group means that different legal and supervisory regulations have to be observed according to the region. The status and development of these regulations is tracked at local level and centrally, and any changes are taken into account for purposes of capital management.

(30) Financial instruments and financial risk management

The significant financial risks of the Group are described below. More extensive descriptions of the risks are included in the risk and opportunities report provided in the management report.

1. Security guidelines and principles of financial risk management

Due to the international activities of the SURTECO Group, changes in interest rates and currency exchange rates impacts the net assets, financial position and results of operations of the SURTECO Group. The risks result from foreign currency transactions carried out in the course of operating business, from financing and from investment.

The Corporate Treasury Department of the SURTECO SE holding company controls centrally the currency and interest-management of the Group and also the key transactions with financial derivatives and other financial instruments. In individual cases, currency hedging transactions are concluded at the foreign subsidiaries in close consultation with central treasury. Financial instruments and derivatives are used exclusively to hedge interest and currency risks. Only commercial instruments with sufficient market liquidity are used for this purpose. Derivative financial positions for trading purposes are not held as at 31 December 2017. Risk assessments and checks are carried out continuously.

The subsidiaries report on their key currency and interest-rate risks within the scope of Group reporting. These risk positions are then analyzed and evaluated on the basis of the gross burden on EBT and the likelihood of occurrence. Derivative financial instruments are used by the Group exclusively for hedging purposes and to reduce risk. They were valued on a monthly basis in the business year 2017.

2. Financial risks

The refinancing of the Group and the subsidiary companies is generally carried out centrally by SURTECO SE. The majority of the Group's financial liabilities have residual terms of up to seven years and they are structured with fixed interest rates (see maturity structure section (30) in the Notes). The Group operates with a wide base of lenders comprising insurance companies and banks. Financial indicators were agreed with lenders at standard market conditions in loan agreements, for example the ratio of EBITDA to interest income (Interest Coverage Factor, see Notes to the Consolidated Financial Statements section (29)) and these have to be complied with by the SURTECO Group. The key figures are continuously monitored by the Board of Management and the Supervisory Board. If there is an impending breach of any indicators, consultations on individual measures take place as necessary. If the indicators are breached, the lenders have the right to serve notice on the loan agreements. The financial indicators were complied with in the business year 2017.

3. Liquidity and credit risk

The Corporate Treasury Department of the SURTECO SE holding company monitors and controls the development of liquidity for the major subsidiary companies. This provides an up-to-date picture of liquidity development at any time. The high levels of free cash flow and the short payment targets mean that the SURTECO Group has adequate liquid funds continuously available. There is also the option of drawing on open credit lines and on factoring agreements.

However, there is the risk that earnings and liquidity are compromised by default on accounts receivable from customers and non-compliance with payment targets. The Group counters this risk by regularly reviewing credit rating and carefully monitoring default with customers. The risk arising from debit balances in accounts payable is low due the broad customer structure and credit insurance policies.

The following table shows the undiscounted contractually agreed cash outflows and inflows from primary financial liabilities and derivative financial instruments with gross fulfilment. If the maturity date is not fixed, the liability relates to the earliest liability date.

2017 [€ 000s]	Book value 31/12/17	2018 Interest	 Repayment	2019 - 2022 Interest	 Repayment	2023 ff. Interest	 Repayment
Financial liabilities to banks	308,324	7,209	3,641	16,290	189,871	8,085	115,822
Financial liabilities from finance lease	14,993	392	2,013	742	12,954	2	26
Financial liabilities	323,317	7,601	5,654	17,032	202,825	8,087	115,848
Trade accounts payable	63,174	-	63,174	-	-	-	-
Other financial liabilities	26,235	-	26,235	-	-	-	-

2016 [€ 000s]	Book value 31/12/16	2017 Interest	 Repayment	2018 - 2021 Interest	 Repayment	2022 ff. Interest	 Repayment
Financial liabilities to banks	179,186	7,162	70,234	9,000	89,688	971	19,264
Payments from derivatives							
Cash outflow		1,829	51,793	0	0	0	0
Cash inflow		-2,669	-65,698	0	0	0	0
Subtotal		6,322	56,329	9,000	89,688	971	19,264
Financial liabilities from finance lease	16,800	664	1,160	1,850	12,496	1	13
Financial liabilities	195,986	6,986	57,489	10,850	102,184	972	19,277
Trade accounts payable	48,888	-	48,888	-	-	-	-
Other financial liabilities	21,650	-	21,650	-	-	-	-

4. Interest and currency risks

Due to the global nature of the business activities of the SURTECO Group, delivery and payment flows result in different currencies. Conversion of business figures and balance sheets from foreign subsidiaries into euros can entail risks which can only be hedged to a certain extent.

Interest risks are mainly incurred for short-term financial liabilities. The majority of long-term financial liabilities are structured with fixed-interest rates. SURTECO SE meets the remaining interest and currency risks in the business year 2017 by hedging positions with derivative financial instruments and regular and intensive observation of a range of early-warning indicators. Hedging of individual risks is discussed and decided by the Central Treasury with the Board of Management and the responsible Managing Directors. The following table shows the sensitivity on the balance sheet date of the available derivatives and variable-interest primary financial instruments in the SURTECO Group to the rise or fall of interest rates by 100 basis points (bp):

[€ 000s]	Income statement 100 bp Rise	 100 bp Fall	Equity/Other comprehensive income 100 bp Rise	 100 bp Fall
31/12/2017				
Variable interest instruments	482	-778	482	-778
Derivatives	0	0	0	0
	482	**-778**	**482**	**-778**
31/12/2016				
Variable interest instruments	505	-505	0	0
Derivatives	0	0	0	0
	505	**-505**	**0**	**0**

The analysis assumes that all other variables, in particular exchange rates, remain unchanged.

The Group operates in several currency areas. In particular, effects arise from the performance of the US dollar.

A rise in the key relevant foreign currencies for SURTECO against the euro would exert the following effects:

[€ 000s]	Income statement		Equity / Other comprehensive income	
	10% Rise	10% Fall	10% Rise	10% Fall
31/12/2017				
Primary financial instruments				
in US dollars	3,082	-2,521	0	0
in other currencies	962	-788	1,915	-1,567
Derivatives				
in US dollars	0	0	0	0
in other currencies	0	0	0	0
	4,044	**-3,309**	**1,915**	**-1,567**
31/12/2016				
Primary financial instruments				
in US dollars	2,245	-1,837	-7,366	6,026
in other currencies	517	-422	1,968	-1,610
Derivatives				
in US dollars	0	0	7,585	-6,206
in other currencies	0	0	0	0
	2,762	**-2,259**	**2,187**	**-1,790**

The analysis assumes that all other variables, in particular interest rates, remain unchanged.

5. Valuations of financial instruments

The calculation and recognition of the fair values of financial instruments is based on a fair value hierarchy which takes into account the significance of the input data used for the valuations and classifies it as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities, where the entity drawing up the financial statements must have access to these active markets on the valuation date.
Level 2 – Directly or indirectly observable input factors which cannot be classified under Level 1.
Level 3 – Unobservable inputs.

The following table shows the book values and fair values of financial assets and financial liabilities including their level in the fair value hierarchy.

No fair value reporting is carried out in accordance with IFRS 7.29 for short-term financial instruments or financial instruments reported at acquisition cost.

31/12/2017 [€ 000s]	Category acc. IAS 39	Book value	(amortized) Acquisition costs	Fair value not affecting income	Fair value affecting income	Carrying amount acc. IAS 17	Fair value (IFRS 13)	Level
Assets								
Cash and cash equivalents	LaR	133,373	133,373				n.a.	n.a.
Trade accounts receivable	LaR	57,826	57,826				n.a.	n.a.
Receivables from affiliated companies	LaR	731	731				n.a.	n.a.
Other current financial assets								
- Further other current financial assets	LaR	3,666	3,666				n.a.	n.a.
- Financial derivatives (with hedging)	n.a.	0					-	-
- Financial derivatives (without hedging)	n.a.	0					-	-
Financial assets								
- Shares in affiliated companies	AfS	20	20				n.a.	n.a.
- Participations	AfS	10	10				n.a.	n.a.
- Loans to affiliated companies	LaR	800	800				822	2
Other non-current financial assets								
- Other loans	LaR	1,951	1,951				2,069	2
- Financial derivatives (with hedging)	n.a.	0					-	-
- Further other non-current financial assets - purchase option *	FAaFV	4,300			4,300		4,300	3
- Further other non-current financial assets	LaR	83	83				n.a.	n.a.
Liabilities								
Current financial liabilities								
- Financial liabilities from finance lease	n.a.	2,013				2,013	n.a.	n.a.
- Liabilities to banks	FLAC	3,643	3,643				n.a.	n.a.
Non-current financial liabilities								
- Financial liabilities from finance lease	n.a.	12,980				12,980	13,321	2
- Liabilities to banks	FLAC	304,681	304,681				319,101	2
Trade accounts payable	FLAC	63,174	63,174				n.a.	n.a.
Other current financial liabilities	FLAC	26,235	26,235				n.a.	n.a.
Other non-current financial liabilities								
- Other non-current financial liabilities - purchase option *	FLaFV	4,300			4,300		4,300	3
- Other non-current financial liabilities	FLAC	71	71				n.a.	n.a.
Aggregated according to valuation categories in accordance with IAS 39								
Loans and Receivables	LaR	198,430	198,430					
Available for Sale Financial Assets	AfS	30	30					
Financial Assets at Fair Value through profit/loss	FAaFV	4,300			4,300			
Financial Liabilities Measured at Amortised Cost	FLAC	397,798	397,798					
Financial Liabilities at Fair Value through profit/loss	FLaFV	4,300			4,300			

* Further explanations are provided in section (24).

31/12/2016 [€ 000s]	Category acc. IAS 39	Book value	(amortized) Acquisition costs	Fair value not affecting income	Fair value affecting income	Carrying amount acc. IAS 17	Fair value (IFRS 13)	Level
Assets								
Cash and cash equivalents	LaR	60,416	60,416				n.a.	n.a.
Trade accounts receivable	LaR	52,072	52,072				n.a.	n.a.
Receivables from affiliated companies	LaR	626	626				n.a.	n.a.
Other current financial assets								
- Further other current financial assets	LaR	5,113	5,113				n.a.	n.a.
- Financial derivatives (with hedging)	n.a.	14,536		14,536			14,536	2
- Financial derivatives (without hedging)	FAaFV	-			-		-	-
Financial assets								
- Shares in affiliated companies	AfS	21	21				n.a.	n.a.
Other non-current financial assets								
- Other loans	LaR	1,478	1,478				1,511	2
- Financial derivatives (with hedging)	n.a.	-		-			-	-
- Further other non-current financial assets - purchase option	FAaFV	4,300			4,300		4,300	3
Liabilities								
Current financial liabilities								
- Financial liabilities from finance lease	n.a.	1,898				1,898	n.a.	2
- Liabilities to banks	FLAC	70,459	70,459				n.a.	n.a.
Non-current financial liabilities								
- Financial liabilities from finance lease	n.a.	14,902				14,902	16,403	2
- Liabilites to banks	FLAC	108,727	108,727				120,895	2
Trade accounts payable	FLAC	48,888	48,888				n.a.	n.a.
Other current financial liabilities	FLAC	21,650	21,650				n.a.	n.a.
Other non-current financial liabilities - purchase option	FLaFV	4,300			4,300		4,300	3

Key to abbreviations	
LaR	Loans and Receivables
AfS	Available for Sale
FAaFV	Financial Assets at Fair Value through profit/loss
FLAC	Financial Liabilities at Amortised Cost
FLaFV	Financial Liabilities at Fair Value through profit/loss

Cash and cash equivalents, trade accounts receivable, other current financial assets in the category "Loans and Receivables" and current financial liabilities, trade payables and other financial liabilities have short residual terms. The values reported correspond approximately to the fair value on the balance sheet date.

The investments in affiliated enterprises which are classified as "Available for Sale" are investments in capital companies. There is no active market for these instruments and the fair value cannot be reliably determined in any other way. The investments in these companies are valued at acquisition costs. It is not planned to dispose of significant shareholdings in these companies in the near future.

The fair values of other non-current financial assets and other loans correspond to the present values of the payments associated with assets taking account of interest parameters in each case which reflect market and partner related changes in conditions and expectations. The fair value for other non-current assets and liabilities is determined using a Cox Ross Rubinstein Model with recourse to current market parameters.

The fair value of liabilities to banks is determined as a present value taking account of the payments associated with the liabilities based on the relevant interest structure curve in each case and the credit spread curve differentiated according to currencies.

During the course of this business year and the previous business year, there were no reclassifications between the measurement categories or reclassifications within the fair value hierarchy. The SURTECO Group decides as necessary with the date of the event or the change in circumstances which have caused a regrouping whether a reclassification is necessary.

The net gains and losses in the income statement arising from financial instruments are presented in the following table:

[€ 000s]	2016	2017
Loans and Receivables	87	-439
Financial Assets and Liabilities at Fair Value through profit/loss	0	-14
Financial Liabilities Measured at Amortised Cost	-4,974	-10,668

The net gains and losses from Loans and Receivables essentially related to changes in allowances, as well as currency translations, allowance reversals and interest income.

The net gains and losses from Financial Assets and Liabilities at Fair Value through profit/loss include effects from the market value of derivatives that are not part of a hedging arrangement.

Net gains and losses from currency translation and from interest expenses are shown for Financial Liabilities Measured at Amortized Cost.

No derivative financial instruments were held on the balance sheet date.

[€ 000s]	2016		2017	
	Nominal amount	Market value	Nominal amount	Market value
Interest-currency swaps (with hedging)	66,288	14,536	-	-
	66,288	14,536	-	-

6. Offsetting of financial assets and financial liabilities

The financial assets shown in the following table are subject to offsetting, implementable global netting agreements or similar agreements.

Balance sheet offsets occurred with trade accounts payable and on which credits are granted or received.

a. Financial assets

[€ 000s]				Related amounts not set off in the balance sheet		
	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Financial instruments	Cash collateral received	Net amount
31/12/2017						
Derivative financial instruments	0	-	0	0	-	0
Trade accounts receivable	61,421	-3,595	57,826	-	-	57,826
	61,421	**-3,595**	**57,826**	**0**	**-**	**57,826**
31/12/2016						
Derivative financial instruments	14,536	-	14,536	0	-	14,536
Trade accounts receivable	58,367	-6,295	52,072	-	-	52,072
	72,903	**-6,295**	**66,608**	**0**	**-**	**66,608**

b. Financial liabilities

[€ 000s]	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet		
				Financial instruments	Cash collateral provided	Net amount
31/12/2017						
Trade accounts payable	66,769	-3,595	63,174	-	-	63,174
	66,769	**-3,595**	**63,174**	**0**	**-**	**63,174**
31/12/2016						
Derivative financial liabilities	0	-	0	0	-	0
Trade accounts payable	55,183	-6,295	48,888	-	-	48,888
	55,183	**-6,295**	**48,888**	**0**	**-**	**48,888**

The amounts of financial assets and liabilities, which have led to no offsetting in the balance sheet, are subject to global netting agreements or similar agreements for which offsetting is only possible under specific prerequisites (e.g. insolvency).

XI. Supplementary Information

(31) Notes to the cash flow statement

The cash flow statement was prepared in accordance with IAS 7. It is structured on the basis of cash flows arising from operating activities, from investment such as financing activities. The effects of changes in the group of companies consolidated are eliminated in the relevant items. The cash flows arising from investment and financing activities are calculated on the basis of payments, cash flow arising from current business operations is derived indirectly.

The financial resources only include the cash and cash equivalents of the SURTECO Group reported in the balance sheet. By contrast, financial controlling in the SURTECO Group is based on the financial balance, which apart from cash and cash equivalents also includes debt.

The operating expenses and income with no effect on liquidity and results from disposal of assets, are eliminated in cash flow from current business operations.

The cash flow from financing activities is comprised of dividend payments, borrowing and repayment of debts such as interest payments from loans.

(32) Segment reporting

The activities of the SURTECO Group are segmented on the basis of operating segments according to IFRS 8 within the scope of segment reporting. The breakdown is based on internal controlling and reporting. It takes into account the product-oriented split of SURTECO into the two Strategic Business Units (SBU) Paper and Plastics. Each company within the Group is assigned to the appropriate segment essentially in accordance with the list "SURTECO Holdings".

- The SBU Paper comprises the production and sale of decor papers, finish foils, impregnates, paper-based edgebandings and release papers.

- The SBU Plastics includes the production and sale of thermoplastic edgings, skirtings and extrusion (profiles) for flooring wholesalers, and ranges for home-improvement and do-it-yourself stores, foils, technical extrusions and roller-shutter systems.

- Consolidation measures, the holding company SURTECO SE and income, expenses, assets and liabilities, which are not directly attributable to the segments, are recognized in the "Reconciliation".

The segment information is based on the same recognition, accounting and valuation methods as those used in the consolidated financial statements. There are no changes in valuation methods compared with previous periods. Assets and liabilities, provisions, income and expenses, as well as earnings between the segments are eliminated in the consolidations. Internal sales within the Group are transacted at commercial prices.

The operating segment assets and the operating segment liabilities are comprised of the assets necessary for operations and borrowings – without liquid funds, interest-bearing assets and liabilities, and tax assets and liabilities.

The Board of Management holds the power of decision-making with regard to the allocation of the resources and the measurement of the earnings power of the reportable segments. Uniform performance and assets values are used in the relevant business segments for this purpose.

The business relationships between the companies in the segments are organized on the basis of dealing-at-arm's-length. Administrative services are calculated as cost allocations.

Segment information [€ 000s]	SBU Paper	SBU Plastics	Recon-ciliation	SURTECO Group
2017				
External sales	367,952	321,698	0	689,651
Internal sales within SURTECO Group	815	4	-819	0
Total sales	368,767	321,702	-819	689,651
Depreciation and amortization	-19,115	-19,112	-196	-38,423
Segment earnings (EBIT)	26,924	24,570	-6,824	44,670
Interest income	336	565	-256	646
Interest expenses	-1,497	-2,125	-4,735	-8,357
Segment earnings (EBT)	25,761	24,284	-16,530	33,515
Share of profit of investments accounted for using the equity method	0	413	0	413
Segment assets	283,731	370,621	31,581	685,932
Segment liabilities	147,096	182,266	-227,331	102,031
Net segment assets	136,635	188,354	258,911	583,901
Book value of investments accounted for using the equity method	0	1,988	0	1,988
Investments in property, plant and equipment and intangible assets	17,896	24,613	198	42,707
Employees	1,347	1,724	20	3,091
2016				
External sales	385,428	254,387	0	639,815
Internal sales within SURTECO Group	791	15	-806	0
Total sales	386,219	254,402	-806	639,815
Depreciation and amortization	-19,927	-13,343	-191	-33,461
Segment earnings (EBIT)	25,256	22,070	-6,449	40,877
Interest income	228	578	-104	702
Interest expenses	-2,392	-1,045	-5,357	-8,794
Segment earnings (EBT)	23,214	23,611	-11,788	35,037
Share of profit of investments accounted for using the equity method	0	395	0	395
Segment assets	308,095	284,172	-3,909	588,358
Segment liabilities	165,596	92,603	-177,123	81,076
Net segment assets	142,499	191,569	173,214	507,282
Book value of investments accounted for using the equity method	0	1,694	0	1,694
Investments in property, plant and equipment and intangible assets	17,491	16,853	130	34,474
Employees	1,366	1,353	17	2,736

Segment information by regional markets [€ 000s]	2016			2017		
	Sales Revenues	Non-current assets	Investments	Sales Revenues	Non-current assets	Investments
- Germany	174,304	233,390	24,270	175,653	231,328	25,872
- Rest of Europe	283,368	75,914	3,353	315,216	171,475	10,527
- America	127,930	59,020	5,712	140,723	55,351	4,890
- Asia/Australia	49,042	30,241	1,139	52,151	30,032	1,419
- Other	5,171	0	0	5,907	0	0
	639,815	**398,565**	**34,474**	**689,651**	**488,187**	**42,707**

Sales revenues were allocated according to the destination of goods delivery. Non-current assets were recorded in accordance with the location of the relevant asset.

Non-current assets include property, plant and equipment, intangible assets and goodwill.

The non-current assets were allocated to goodwill by regions.

Reconciliation of balance sheet total with net segment assets [€ 000s]	**2016**	**2017**
Balance sheet total	**673,869**	**842,596**
Less financial assets		
- Cash and cash equivalents	60,416	133,373
- Financial assets and investments accounted for using the equity method	1,715	2,887
- Tax assets / deferred tax assets	8,844	20,404
- Financial derivatives	14,536	0
Segment assets	**588,358**	**685,932**
Current and non-current liabilities	**327,317**	**493,360**
Less financial liabilities		
- Short-term and long-term financial liabilities	195,986	323,317
- Financial derivatives	0	0
- Tax liabilities / deferred tax liabilities	37,225	55,197
- Pensions and other personnel-related obligations	13,030	12,814
Segment liabilities	**81,076**	**102,031**
Net segment liabilities	**507,282**	**583,901**

(33) Transactions with non-controlling interests and related companies and persons

The following table shows the scope of relationships between SURTECO Group and the company accounted for using the equity method.

[€ 000s]	2016	2017
Services rendered (income)	1,221	1,306
Services received (expense)	0	0
Receivables (31/12/)	209	61
Liabilities (31/12/)	0	0

The following table shows the scope of relationships between SURTECO Group and the non-consolidated companies.

[€ 000s]	2016	2017
Services received (income)	924	735
Services received (expense)	144	0
Receivables (31/12/)	1,247	1,441
Liabilities (31/12/)	0	0

Outstanding items in respect of these companies are neither secured nor were allowances recognized as at the balance sheet date.

The exchange of services essentially comprises the delivery of inventories at market conditions.

On 31 December 2017, the SURTECO Group issued guarantees amounting to € 000s 106 (2016: € 000s 92) to a non-consolidated company for the fulfilment of individual contracts by non-consolidated companies. It is assumed that no obligations will arise as a result of these guarantees.

(34) Compensation for the executive officers and former executive officers

Supervisory Board

Total compensation of the Supervisory Board for the business year 2017 amounted to € 000s 386 (2016: € 000s 383). It includes basic remuneration of € 000s 352 (2016: € 000s 352) and compensation for audit-committee activities of € 000s 34 (2016: € 000s 31).

Board of Management

Most of the remuneration for members of the Board of Management is performance based. It includes a fixed element and a variable element. The variable element is a bonus based on performance and is calculated on the basis of the Earnings Before Tax (EBT) of the Group in accordance with IFRS, taking into account the return on sales. It also includes a basis of assessment over several years. The total guaranteed remuneration of the active members of the Board of Management amounted to € 000s 2,977 (2016: € 000s 2,812) for the business year 2017. Out of this amount, € 000s 820 (2016: € 000s 720) were attributable to the fixed compensation, € 000s 1,950 (2016: € 000s 1,908) to the performance-based compensation and € 000s 107 (2016: € 000s 84) to fringe benefits and € 000s 100 (2016: € 000s 100) to pension expenses. Out of the total compensation of the active members of the Board of Management, € 000s 488 are long term and € 000s 2,489 are short term.

The information about individual compensation and the information in accordance with IAS 24 is provided in the compensation report of the Management Report of the SURTECO Group and SURTECO SE.

(35) Share ownership of the Board of Management and Supervisory Board of SURTECO SE

On the balance sheet date, 2,000 shares (2016: 2,000) of the company were held directly and indirectly by the members of the Board of Management and 242,767 shares (2016: 238,577) were held directly or indirectly by the members of the Supervisory Board. No member of the Board of Management or the Supervisory Board held a stake in excess of 1 % in the company either directly or indirectly on the balance.

(36) Auditor's fee

At the Annual General Meeting on 29 June 2017, auditing firm PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, was appointed as the auditor of the financial statements and auditor to carry out the audit inspection of the interim financial reports for the business year 2017.

The total fee for the business year amounted to € 000s 978. Out of this € 000s 712 was attributed to services for auditing the financial statements, € 000s 17 to other confirmation services, € 000s 181 to tax consultancy services and € 000s 68 to miscellaneous services. The auditing services include auditing of the consolidated financial statements and auditing of the separate financial statements of SURTECO SE and the domestic subsidiary companies. The tax consultancy services essentially relate to consultancy services for the preparation of tax returns. The other services include in particular project-related consultancy services.

(37) Events after the balance sheet date

No events or developments occurred until 25 April 2018 which could have resulted in a significant change to the recognition or valuation of individual assets or liabilities at 31 December 2017.

XII. Executive Officers of the Company

Board of Management
(at 31/12/2017)

Name	Main activity	Supervisory Board Memberships of other companies and other mandates
Dr.-Ing. Herbert Müller Engineer, Heiligenhaus	Chairman of the Board of Management, Group Strategy, Strategic Business Unit Plastics	• Chairman of the Supervisory Board of Ewald Dörken AG, Herdecke
Andreas Riedl Graduate in Business Administration, Donauwörth (since 1 July 2017)	Member of the Board of Management CFO	-
Dr.-Ing. Gereon Schäfer Engineer, Kempen (until 31 March 2018)	Member of the Board of Management Strategic Business Unit Paper	-

Members of the Supervisory Board
(at 31/12/2017)

Name	Main activity	Supervisory Board memberships of other companies and other mandates
Dr.-Ing. Jürgen Großmann Engineer, Hamburg (Chairman)	Shareholder of the GMH Group, Georgsmarienhütte	• Member of the Supervisory Board of Deutschen Bahn AG, Berlin • Member of the Supervisory Board of – British American Tobacco (Industrie) GmbH, Hamburg – BATIG Gesellschaft für Beteiligungen mbH, Hamburg – British American Tobacco (Germany) Beteiligungen GmbH, Hamburg • Member of the Board, Hanover Acceptances Limited, London • Chairman of the Board of Trustees of RAG Stiftung, Essen
Björn Ahrenkiel Lawyer, Hürtgenwald (Vice Chairman)	Lawyer	-
Dr. Markus Miele Industrial Engineer, Gütersloh (Deputy Chairman)	Managing Director of Miele & Cie. KG, Gütersloh	• Member of the Supervisory Board of ERGO Versicherungsgruppe AG, Düsseldorf
Dr. Christoph Amberger Independent Entrepreneur, Utting am Ammersee (from 29 June 2017)	Independent Entrepreneur	• Member of the Advisory Board of Frischpack GmbH, Mailling • Member of the Advisory Board of Detia Degesch Group, Laudenbach • Chairman of the Supervisory Board of Riber – KWS Sementes S.A., Patos de Minas, Brazil (until 30 June 2017) • Deputy Chairman of the Supervisory Board of Klöpfer & Königer GmbH und Co. KG, Garching

Members of the Supervisory Board
(at 31/12/2017)

Name	Main activity	Supervisory Board memberships of other companies and other mandates
Markus Kloepfer Engineer, Essen (until 29 June 2017)	Managing Director of alpha logs GmbH, Essen	-
Jens Krazeisen* Process Mechanic, Buttenwiesen-Pfaffenhofen	Chairman of the Works Council of BauschLinnemann GmbH / SURTECO DECOR GmbH, Buttenwiesen-Pfaffenhofen	-
Wolfgang Moyses Master of Business Administration, Munich	Chairman of the Board of SIMONA AG, Kirn	• Member of the Supervisory Board of Brabender Inc., South Hackensack • Member of the Customer Advisory Board of Landesbank Rheinland-Pfalz, Mainz
Udo Sadlowski* Training Manager, Essen	Chairman of the Works Council of Döllken-Kunststoffverarbeitung GmbH, Gladbeck	-
Dr.-Ing. Walter Schlebusch Engineer, Munich	Member of the Advisory Board of Giesecke & Devrient GmbH, Munich	-
Thomas Stockhausen* Specialist in safety at work, Sassenberg	Chairman of the Works Council of BauschLinnemann GmbH, Sassenberg	-

* Employee Representative

Committees of the Supervisory Board

Presiding Board			
Dr.-Ing. Jürgen Großmann (Chairman)	Björn Ahrenkiel	Dr. Christoph Amberger	Dr. Markus Miele
Personnel Committee			
Dr.-Ing. Jürgen Großmann (Chairman)	Björn Ahrenkiel	Dr. Christoph Amberger	Dr. Markus Miele
Audit Committee			
Björn Ahrenkiel (Chairman)	Dr.-Ing. Jürgen Großmann	Wolfgang Moyses	Dr.-Ing. Walter Schlebusch

XIII. Declaration of Compliance with the German Corporate Governance Code pursuant to § 161 Sentence 1 Stock Corporation Act (AktG)

The Board of Management and the Supervisory Board of SURTECO SE have submitted the Declaration of Compliance in respect of the Corporate Governance Code pursuant to § 161 Sentence 1 Stock Corporation Act (AktG) on 21 December 2017 and made this declaration available to shareholders on the website of the company at: www.ir.surteco.com. These declarations are intended to demonstrate compliance with all key aspects of the recommendations on conduct promulgated by the "Government Committee on the German Corporate Governance Code".

SURTECO Holdings at 31/12/2017

		Country	Consol-idated	Percentage of shares held by SURTECO SE	Partici-pation in no.
Parent Company					
100	SURTECO SE, Buttenwiesen-Pfaffenhofen	Germany			
Strategic Business Unit Paper					
300	SURTECO DECOR GmbH, Buttenwiesen-Pfaffenhofen	Germany	F	100.00	100
321	SURTECO art GmbH, Willich	Germany	F	100.00	300
330	DAKOR Melamin Imprägnierungen GmbH, Heroldstatt	Germany	F	100.00	300
341	SÜDDEKOR LLC, Agawam	USA	F	100.00	300
401	BauschLinnemann GmbH, Sassenberg	Germany	F	100.00	100
405	SURTECO UK Ltd., Burnley	United Kingdom	F	100.00	401
410	Kröning GmbH, Hüllhorst	Germany	F	100.00	401
441	BauschLinnemann North America Inc., Myrtle Beach	USA	F	100.00	401
443	SURTECO North America Inc., Myrtle Beach	USA	NC	100.00	300
470	SURTECO Italia s.r.l., Martellago	Italy	F	50.00	401
				50.00	510

F = Full Consolidation E = Consolidation at Equity NC = Not Consolidated

		Country	Consolidated	Percentage of shares held by SURTECO SE	Participation in no.
Strategic Business Unit Plastics					
501	Global Abbasi, S. L., Madrid	Spain	F	100.00	510
502	Probos - Plásticos, S. A., Mindelo	Portugal	F	100.00	501
503	Proadec Brasil Ltda., Sao José dos Pinhais	Brazil	F	100.00	502
504	Chapacinta, S. A. de C. V., Tultitlán	Mexico	F	100.00	502
505	Proadec UK Ltd., Greenhithe (Kent)	United Kingdom	F	100.00	502
506	Proadec Deutschland GmbH, Bad Oeynhausen	Germany	F	100.00	502
510	Döllken-Kunststoffverarbeitung GmbH, Gladbeck	Germany	F	100.00	100
512	SURTECO Australia Pty Limited, Sydney	Australia	F	100.00	510
513	SURTECO PTE Ltd., Singapore	Singapore	F	100.00	510
514	PT Doellken Bintan Edgings & Profiles, Batam	Indonesia	F	99.00	510
				1.00	513
515	Döllken-Profiltechnik GmbH, Dunningen	Germany	F	100.00	520
516	SURTECO France S.A.S., Beaucouzé	France	F	100.00	510
517	SURTECO DEKOR Ürünleri Sanayi ve Ticaret A.Ş., Istanbul	Turkey	F	99.69	510
				0.25	520
				0.03	300
				0.03	401
518	SURTECO OOO, Moscow	Russia	F	50.00	510
				50.00	401
519	SURTECO Iberia S.L., Madrid	Spain	NC	100.00	510
520	Döllken Profiles GmbH, Nohra (formerly Döllken-Weimar GmbH)	Germany	F	100.00	100
531	Döllken Sp.z o.o., Kattowitz	Poland	F	100.00	520
532	Döllken CZ s.r.o., Prag	Czech Republic	F	100.00	520
540	Nenplas Holdings Ltd., Ashbourne	United Kingdom	F	85.00	520
541	Nenplas Ltd., Ashbourne	United Kingdom	F	100.00	540
542	Polyplas Extrusions Ltd., Stourport-on-Severn	United Kingdom	F	100.00	541
543	Delta Plastics Ltd., Wolverhampton	United Kingdom	F	100.00	541
544	Nenplas Property, Ashbourne	United Kingdom	F	100.00	545
545	Nenplas Property Holding, Ashbourne	United Kingdom	F	100.00	540
550	SURTECO USA Inc., Greensboro	USA	F	100.00	510
560	SURTECO Canada Ltd, Brampton	Canada	F	100.00	510
561	Doellken-Canada Ltd., Brampton	Canada	F	100.00	560
567	SURTECO do Brasil S/A Comercio E Importacao de Componentes Para Moveis, Curitiba	Brazil	F	100.00	560
568	Inversiones Doellken South America Ltd, Santiago	Chile	F	100.00	560
572	Canplast Mexico S.A. de C.V., Chihuahua	Mexico	E	50.00	560
610	SURTECO Svenska AB, Gislaved	Sweden	F	100.00	100
611	Gislaved Folie AB, Gislaved	Sweden	F	100.00	610
	JORNA Grundstücks-Verwaltungsgesellschaft mbH & Co. KG, Grünwald	Germany	F		520
	SANDIX Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Weimar KG, Düsseldorf	Germany	F		520

Independent Auditor’s Report

To SURTECO SE, Buttenwiesen-Pfaffenhofen

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of SURTECO SE, Buttenwiesen-Pfaffenhofen, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year from1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of SURTECO SE, which is combined with the Company’s management report, for the financial year from1 January to 31 December 2017. We have not audited the content of those parts of the group management report listed in the “Other Information” section of our auditor’s report in accordance with the German legal requirements.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § [Article] 315e Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, and

- the accompanying group management report as a whole provides an appropriate view of the Group’s position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of those parts of the group management report listed in the “Other Information” section of our auditor’s report.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation, with the exception of two engagements regarding the preparation of payrolls for two companies of the Probos Group acquired in 2017, which were not terminated in due time and were in the order of less than 0.2% of the SURTECO Group's personnel expenses. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from1 January to 31 December 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

❶ Recoverability of goodwill
❷ Acquisition of shares in Global Abbasi, S.L.
❸ Financial instruments – Raising of a promissory note loan

Our presentation of these key audit matters has been structured in each case as follows:

① **Matter and issue**
② **Audit approach and findings**
③ **Reference to further information**

Hereinafter we present the key audit matters:

❶ Recoverability of goodwill

① In the Company's consolidated financial statements goodwill amounting in total to EUR 163.3 million (19.38% of total assets or 46.76% of equity) is reported under the "Goodwill" balance sheet item. Goodwill is tested for impairment by the Company once a year or when there are indications of impairment to determine any possible need for write-downs. The impairment test is carried out at the level of the groups of cash-generating units to which the relevant goodwill is allocated. The carrying amount of the relevant cash-generating units, including goodwill, is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is generally determined using the value in use. The present value of the future cash flows from the respective group of cash-generating units normally serves as the basis of valuation. Present values are calculated using discounted cash flow models. For this purpose, the adopted medium-term business plan of the Group forms the starting point which is extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account. The discount rate used is the weighted average cost of capital for the respective group of cash-generating units. The impairment test determined that no write-downs were necessary.

The outcome of this valuation is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit, we assessed the methodology used for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the adopted medium-term business plan of the Group, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In addition, we assessed the appropriate consideration of the costs of Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied, and assessed the calculation model. In order to reflect the uncertainty inherent in the projections, we evaluated the sensitivity analyses performed by the Company. Taking into account the information available, we determined that the carrying amounts of the respective cash-generating units, including the goodwill, were adequately covered by the discounted future cash flows.

Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and are also within the ranges considered by us to be reasonable.

③ The Company's disclosures on goodwill are contained in section IX (19) of the notes to the consolidated financial statements.

❷ Acquisition of shares in Global Abbasi, S.L.

① On 23 June 2017, Döllken-Kunststoffverarbeitung GmbH entered into an agreement to purchase 100% of the shares in Global Abbasi, S.L., Madrid, Spain. Döllken-Kunststoffverarbeitung GmbH is a direct wholly owned subsidiary of SURTECO SE. The purchase price for the shares totaled EUR 82.8 million. In general, the acquired assets and liabilities are recognized at fair value as at the acquisition date. Taking into consideration the acquired net assets, the acquired goodwill amounted to EUR 45.4 million. Due to the overall material impact on the assets, liabilities, financial position, and financial performance of the SURTECO Group and the complex nature of measuring the acquisition, this was of particular significance in the context of our audit.

② As part of our audit of the accounting treatment of the acquisition, we initially inspected and examined the contractual agreement for the acquisition and reconciled the purchase price paid with the supporting documentation provided to us regarding the payments made. We assessed the underlying opening balance sheet figures for the acquisition. We evaluated the fair values calculated by reconciling the applied parameters and the numerical data with the original financial accounting records. Checklists were used to examine whether the requirements set out in IFRS 3 for disclosures in the notes to the consolidated financial statements had been complied with in full. Based on these and other audit procedures performed and under consideration of the information available, we were able to satisfy ourselves that the acquisition was appropriately presented.

③ The Company's disclosures relating to the acquisition are contained in section IV of the notes to the consolidated financial statements.

❸ Financial instruments – Raising of a promissory note loan

① In the consolidated financial statements of SURTECO SE a promissory note loan in the total amount of EUR 199.3 million (23.65% of total assets) is reported under "Long-term financial liabilities". The promissory note loan comprises the nominal amount of the individual tranches in the total amount of EUR 200 million and the attributable transaction costs in the amount of TEUR 749.5. The promissory note loan is measured at amortized cost using the effective interest method. The promissory note loan is divided into maturities of 5, 7 and 10 years. In view of the material significance of the promissory note loan for the Company's financial position and given the complexity of the accounting treatment, this matter was of particular significance in the context of our audit.

② As part of our audit we assessed the methodology used for the purposes of measuring the promissory note loan and the transaction costs. In connection with the promissory note loan, we inspected and assessed the loan agreements for the individual tranches. We reconciled the transaction costs with the supporting documents provided to us, and evaluated these in respect of their allocation to the promissory note loan. We obtained external confirmations (bank confirmations) for reconciling the value of the promissory note loan as at the balance sheet date. The payments received under the individual tranches of the promissory note loan were compared with the supporting documentation provided to us.

From our point of view, the executive directors' estimations underlying this accounting treatment are sufficiently documented and substantiated, and result in an appropriate recognition in the consolidated financial statements.

③ The Company's disclosures on raising debt are contained in section IX of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the statement on corporate governance pursuant to § 289f HGB and § 315d HGB included in section "Corporate Governance Report" of the group management report
- the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code
- the separate non-financial report pursuant to § 289b Abs. 3 HGB and § 315b Abs. 3 HGB

The other information comprises further the remaining parts of the annual report – excluding cross-references to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on 29 June 2017. We were engaged by the supervisory board on 12 October 2017. We have been the group auditor of SURTECO SE, Buttenwiesen-Pfaffenhofen, without interruption since the financial year 2011.
We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Dietmar Eglauer.

Munich, 25 April 2018

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft

Dietmar Eglauer	ppa. Bernhard Obermayr
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Responsibility Statement

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Buttenwiesen-Pfaffenhofen, 25 April 2018

The Board of Management

H. Müller A. Riedl

Dr.-Ing. Herbert Müller Andreas Riedl

SURTECO SE
BALANCE SHEET (HGB) (SHORT VERSION)

€ 000s	31/12/2016	31/12/2017
ASSETS		
Intangible assets	120	60
Tangible assets	361	423
Investments		
- Interest in affiliated enterprises	297,742	297,742
- Notes receivable to affiliated enterprises	17,712	17,238
- Participations	1	1
Fixed assets	**315,936**	**315,464**
Receivables and other assets		
- Receivables from affiliated enterprises	157,495	228,814
- Other assets	5,879	5,633
Cash in hand, bank balances	47,879	109,071
Current assets	**211,253**	**343,518**
Prepaid expenses	**275**	**864**
	527,464	**659,846**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Subscribed capital	15,506	15,506
Additional paid-in capital	170,177	170,177
Retained earnings	109,474	111,123
Net profit	12,405	12,405
Equity	**307,562**	**309,211**
Tax accruals	573	1,624
Other accruals	3,234	3,409
Accrued expenses	**3,807**	**5,033**
Liabilities to banks	163,275	308,033
Trade accounts payable	243	326
Liabilities to affiliated enterprises	50,112	32,391
Other liabilities	2,447	4,834
Liabilities	**216,077**	**345,584**
Deferred income	**18**	**18**
	527,464	**659,846**

SURTECO SE
INCOME STATEMENT (HGB) (SHORT VERSION)

€ 000s	1/1/-31/12/ 2016	1/1/-31/12/ 2017
Sales revenues	1,236	1,732
Income from profit and loss transfer agreements	31,498	30,709
Losses from profit and loss transfer agreements	-10,472	-154
Other operating income	1,247	1,198
Personnel expenses	-4,762	-4,977
Amortization and depreciation on intangible assets and property, plant and equipment	-181	-188
Other operating expenses	-3,733	-7,658
Income from long-term securities and loans from financial assets	488	471
Interest income	-6,130	-6,359
Income taxes	1,023	-716
Earnings after tax	**10,214**	**14,058**
Other taxes	-6	-4
Net income	**10,208**	**14,054**
Transfer to retained earnings	0	-1,649
Transfer from retained earnings	2,197	0
Net profit	**12,405**	**12,405**

The Annual Financial Statements of SURTECO SE have been published in the Federal Gazette (Bundesanzeiger) and filed at the Company Register of the Local Court Augsburg (Amtsgericht Augsburg). The Balance Sheet and the Income Statement (short version) from these Annual Financial Statements are published here. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Munich, audited the Annual Financial Statements and provided them with an unqualified auditor's opinion.

The Annual Financial Statements can be requested from SURTECO SE, Johan-Viktor-Bausch-Str. 2, 86647 Buttenwiesen-Pfaffenhofen, Germany.

GLOSSARY

AUTHORIZED CAPITAL

Authorized capital relates to the authorization of the Board of Management to increase the capital stock up to a specified nominal amount by issuing new shares subject to the approval of the Supervisory Board. The authorization is granted by the Annual General Meeting and requires a three-quarter majority of the represented capital. The term is a maximum of five years. Furthermore, the authorized capital may not be higher than half of the capital stock. Authorized capital gives the Board of Management the opportunity to increase the equity capital of the company at a favourable time for the company and in accordance with the capital requirement and situation on the stock exchange, without having to convene an Annual General Meeting.

CALENDERING

Calendering is used for the manufacture of plastic foils. Calenders are comprised of two or more heatable rollers which are configured in parallel and rotate in opposite directions. The polymer being processed is first mixed, then gelled (pre-heated) and finally calendered. The foil is then taken over by other rollers. This enables the thickness to be further reduced. The foil is also embossed. This is again a calender. The embossing roller is tempered, the counter-roller is cooled. After the embossing process has been carried out, the foil is cooled and rolled up.
Calenders are also used for embossing, smoothing, compressing and satinizing papers and textiles. In the paper industry, surface properties such as gloss and smoothness are improved while at the same time reducing the thickness. An array of different effects can be achieved by changing the pressure, temperature and roller speed.

CAPITAL STOCK

The capital stock is the minimum capital defined in law which has to be provided by the shareholders of a joint-stock company or a European Company (SE). The capital stock of a joint-stock company (AG) must be at least € 50,000 (§ 7 Stock Corporation Act, AktG), the capital stock of an SE must be € 120,000 (Article 4 Section 2 SE-VO). The capital stock in an AG and a SE is divided into shares. In the case of par shares, the total of all the par values form the capital stock. In the case of no-par-value shares, each share forms a numerical share of the capital stock.

CORPORATE GOVERNANCE

Corporate Governance relates to responsible management and control of companies directed towards long-term creation of value added and increase in the value of the company. This does not simply cover the management functions of the executive management but also involves the distribution of functions between the Board of Management and the Supervisory Board, and their relationships with the current and future shareholders, investors, employees, business partners and the public domain. Corporate Governance therefore encompasses shareholder value – the increase in income for shareholders – and stakeholder value – the value of the company for the business partners. Apart from the internal effect directed towards the increase in efficiency and control, Corporate Governance exerts a significant external effect that can be described as entailing a transparent and open policy on information. The internal and external effect are directed towards increasing the value of the company, most importantly the stock-market value.

DEALING-AT-ARM'S LENGTH PRINCIPLE

Services between legally independent companies of a group are exchanged at intercompany prices. Intercompany prices must be subject to the test of dealing-at-arm's length, which would involve an offset of an exchange of services between affiliated companies at conditions that were agreed or would have been agreed under comparable circumstances with or among third parties.

DERIVATIVE FINANCIAL INSTRUMENTS

Financial products in which the market value can be derived from classic underlying instruments or from market prices such as interest rates or exchange rates. Derivatives are used for financial management at SURTECO in order to limit risk.

EBIT

Earnings before financial result and income tax

EBITDA

Earnings before financial result, income tax and depreciation and amortization

EBT

Earnings before income tax

EQUITY METHOD

Method of consolidation for presenting participations in companies whereby a controlling influence can be exerted over their business and financial policy. The participation is initially valued at acquisition cost and this value is then adjusted on a pro rata basis to reflect performance of the companies accounted for using the equity method.

EXTRUSION

The process of extrusion (from the Latin extrudere = push out, drive out) involves plastics or other thermosetting materials, e.g. rubber, being squeezed through a nozzle in a continuous procedure. The plastic – the extrudate – is initially melted as it passes through an extruder (also known as a screw extruder) by the application of heat and internal friction, and homogenized. The necessary pressure for extruding the material through the nozzle is built up in the extruder. After the plastic has been extruded from the nozzle, it generally sets in a water-cooled calibration. The application of a vacuum ensures that the extrusion is pressed against the calibre wall and the process of forming is completed in this way. This stage is often followed by a cooling phase carried out in a cooled water bath. The cross section of the geometrical component created corresponds with the nozzle or calibration used. The merging of like or unlike plastic melts before exiting from the extruder nozzle is also known as coextrusion.

FULLY IMPREGNATED PAPER

During the process of full impregnation, papers are saturated in a resin bath and then dried. The impregnated papers are generally varnished and they can then be applied as finish foils to substrate materials, such as MDF boards or fibre boards.

GERMAN CORPORATE GOVERNANCE CODE

The German Corporate Governance Code defines essential statutory regulations for managing and monitoring German companies listed on the stock exchange (corporate governance) and includes internationally and nationally recognized standards for sound and responsible corporate governance. The code is intended to make the Corporate Governance System in Germany transparent and accountable. The intention is to promote the trust of international and national investors, customers, employees and members of the general public in the management and monitoring of German companies listed on the stock exchange. The code elucidates the duties of the Board of Management and the Supervisory Board to act in harmony with the principles of the social market economy in the interests of the company and creation of the company's long-term value added (interests of the company).

HYBRID PRODUCTS

This product group covers the finish foils and melamine edgings produced by the Strategic Business Unit Paper. Their applications include those for true metals, combining the technical and optical advantages of metal with the proven processing attributes of paper-based finish foils and edgings.

IMPAIRMENT TEST

Periodic comparison of an asset´s book value with its fair value. A company must record an impairment charge if it determines that an asset´s fair value has fallen below its book value. Goodwill, for example, is tested for impairment on at least an annual basis.

IMPREGNATED PRODUCTS

Impregnates are special papers (generally decorative papers) which are saturated in a resin bath in the same way as fully impregnated materials. However, in contrast to these materials, the impregnates are not provided with a final varnish coating. They only receive their final surface when they are compressed with the wood-fibre boards.

INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB)

IASB has been the abbreviation for the International Accounting Standards Board since 2001. The IASB is based in London and is organized and financed under private law. The function of the IASB is to draw up international accounting standards (IFRS - International Financial Reporting Standards). The goal of the IASB is to develop high-quality, comprehensible and feasible accounting standards in the interests of the public that result in the presentation of high-quality, transparent and comparable information in financial statements and other financial reports. The aim of this is to assist participants in the capital markets to make economic decisions and to create convergence between national standards and IAS / IFRS. The IASB is developing standards on an ongoing basis. Since 2000, the EU Commission has implemented many of these standards as binding EU law in a special endorsement procedure.

INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC)

The IFRIC is a committee in the International Accounting Standards Committee Foundation. The group has fourteen members. The function of the IFRIC is to publish interpretations of accounting standards in cases where different or incorrect interpretations of the standard are possible, or new factual content was not adequately taken into account in the previous standards. The IFRIC meets every six weeks and initially publishes interpretations, as a draft for purposes of discussion in the public domain.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The International Financial Reporting Standards (IFRS) are international accounting standards. They comprise the standards of the International Accounting Standards Board (IASB), the International Accounting Standards (IAS), the International Accounting Standards Committee and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and the former Standing Interpretation Committee (SIC).

PREIMPREGNATED PAPER

In contrast to fully impregnated materials, the raw paper has already been impregnated with resin when it is supplied as a preimpregnated material. The paper is printed and then varnished.

PRIME STANDARD

New share segment on the Frankfurt Stock Exchange (alongside the General Standard) with uniform registration obligations. Participation in the Prime Standard entails compliance with higher international requirements for transparency than required for the General Standard. Quarterly reporting, application of international accounting standards, publication of a corporate calendar, an annual analysts' conference, publication of ad hoc press releases and ongoing reporting in English are the key obligations consequent on admission to the Prime Standard.

RELEASE PAPERS

These are an auxiliary material used in the compression of melamine impregnates with wood-fibre boards. The release papers form a separating layer between the hot pressed boards and the material. The release paper controls the texture and the degree of gloss finish to be provided on the surface being generated.

SBU

Strategic Business Unit

SE

Abbreviation for Societas Europaea – legal form of a European joint-stock company

FINANCIAL CALENDAR

2018

15 May 2018	Three-month report January – March 2018
28 June 2018	Annual General Meeting
3 July 2018	Dividend payout
14 August 2018	Six-month report January – June 2018
14 November 2018	Nine-month report January – September 2018

2019

30 April 2019	Annual Report 2018
15 May 2019	Three-month report January – March 2019
27 June 2019	Annual General Meeting
2 July 2019	Dividend payout
14 August 2019	Six-month report January – June 2019
14 November 2019	Nine-month report January – September 2019

PUBLICATION DETAILS

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TEN YEAR OVERVIEW

	2008	2009	2010	2011
Sales revenues in € 000s	402,984	341,145	388,793	408,809
Foreign sales in %	66	64	67	67
EBITDA in € 000s	56,828	54,317	62,547	56,116
Depreciation and amortization in € 000s	-19,731	-19,892	-20,934	-21,099
EBIT in € 000s	37,097	34,425	41,613	35,017
Financial result in € 000s	-21,320	-16,860	-9,520	-12,089
EBT in € 000s	15,777	17,565	32,093	22,928
Consolidated net profit in € 000s	6,754	9,239	21,754	12,484
Balance sheet total in € 000s	490,073	481,676	480,996	482,135
Equity in € 000s	180,516	191,815	212,969	216,504
Equity ratio in %	37	40	44	45
Average number of employees for the year	2,194	1,979	1,990	2,050
Number of employees at 31/12	2,137	1,903	2,003	2,005
Capital stock in €	11,075,522	11,075,522	11,075,522	11,075,522
Number of shares at 31/12	11,075,522	11,075,522	11,075,522	11,075,522
Earnings per share in € (by weighted average of shares issued)	0.61	0.83	1.96	1.13
Dividend per share in €	0.35	0.40	0.90	0.45
Dividend payout in € 000s	3,876	4,430	9,968	4,984
PROFITABILITY INDICATORS				
Return on sales in %	3.9	5.1	8.2	5.6
Return on equity in %	3.8	4.9	10.8	5.9
Total return on total equity in %	6.0	6.2	8.9	6.8

2012	2013	2014	2015	2016	2017
407,720	402,115	618,469	638,394	639,815	689,651
69	70	72	72	73	75
51,699	59,660	62,842	64,957	74,338	83,093
-22,045	-22,613	-35,235	-33,847	-33,461	-38,423
29,654	37,047	27,607	31,110	40,877	44,670
-8,463	-9,056	-5,344	-4,293	-5,840	-11,155
21,191	27,991	22,263	26,843	35,037	33,515
15,028	21,876	18,464	17,721	23,867	26,192
467,250	626,109	636,669	655,727	673,869	842,596
223,178	311,025	321,101	334,381	346,552	349,236
48	50	50	51	51	41
1,994	2,114	2,682	2,727	2,736	3,091
1,967	2,664	2,705	2,695	2,833	3,295
11,075,522	15,505,731	15,505,731	15,505,731	15,505,731	15,505,731
11,075,522	15,505,731	15,505,731	15,505,731	15,505,731	15,505,731
1.36	1.86	1.19	1.14	1.54	1.69
0.45	0.65	0.70	0.80	0.80	0.80*
4,984	10,079	10,854	12,405	12,405	12,405
5.3	6.9	3.6	4.2	5.5	4.8
6.9	7.3	6.0	5.5	7.2	7.8
6.6	5.9	5.1	5.5	6.5	5.0

* Proposal by the Board of Management and Supervisory

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